31 May 2018

MiLOC Group Limited
(the “Company” or the “Group”)

Final audited results for the year ended 31 December 2017

MiLOC Group Limited (NEX: ML.P), the NEX Exchange quoted pharmaceutical and healthcare group, is pleased to announce its audited consolidated financial statements for the year ended 31 December 2017.

Key financial highlights:

- Revenue for the year ended 31 December 2017: HK$11,618,098 (2016: HK$10,889,218)
- Loss for the year: HK$17,269,618 (2016: HK$11,488,841)
- The basic and diluted loss per share for the year: HK$0.24 (2016: HK$0.17)
- The Group’s cash position as at 31 December 2017: HK$3,891,331 (2016: HK$3,045,423)

Chairman’s Statement

I am very pleased to report the 2017 financial year results for MiLOC Group Limited.

The nature of the Company’s operations and its principal activities are to act as the holding company of a group engaged in (i) the provision of healthcare services, through and assisted by Traditional Chinese Medicine (“TCM”) and medical products as well as therapies and consultations through a network of clinics in Hong Kong. And (ii) the sale and distribution of TCM healthcare and skincare products through wholesale outlets and TCM clinics, the Group’s retail store in Hong Kong and other non-related TCM retail outlets, as well as directly to customers through the Company’s online store.

Review of significant activities

The Group has, since its inception, invested considerable time and expense in establishing itself and introducing the concept of TCM, medical products and healthcare to the wider public. TCM is increasingly being recognised by both those providing Western medical treatment as well as the general public as a natural alternative to Western medicine and/or to work alongside Western medical treatment. The revenue from the Group’s activities continues to move in a positive direction.

The Board believes that the establishment of TCM PLUS skin-care and hair-care products will make a very substantial positive contribution to the Group’s revenue and it has invested much time and cost in research and development of these products. A significant proportion of the capital raised from private placings has been directed towards this area of the Group’s activities.

(a) Private Placings

In 2017, the Group raised HK$11.4 million through private placings. The proceeds of these subscriptions have been applied towards several activities of the Company, including the TCM Plus range of skincare products and AKFS Plus range of hair products as mentioned above (Please refer to Note 19 for details of private placings).

(b) Launch of New Products

On 16 December 2017, the Group launched a series of new TCM hair-care products under the brand name of AKFS Plus. These products have been developed jointly by MiLOC Pharmaceutical (HK) Limited (“MPHK”), the Group’s wholly-owned subsidiary, and Kwok Fu Shing (also known as Aaron Kwok), a well known and successful singer, dancer and actor in Asia.

MPHK has entered into a distribution agreement with a subsidiary of NetEase Inc, a company listed on the NASDAQ stock exchange in the USA which is one of the leading cross-border online retail platforms. Mannings, one of the leading personal health and beauty retailers in Hong Kong is already selling AKFS Plus. The Company is also looking to enter into distribution agreements with other leading distributors in Hong Kong, Taiwan and Mainland China.

Financial review

(i) Revenue, gross profit and other revenue

The Group's revenue for the year ended 31 December 2017 amounted to HK$11,618,098 which represented a 6.7% increase as compared to the year ended 31 December 2016. This was mainly due to an increase of sales on skincare products. The Group's revenue for the year included sales of TCM that amounted to approximately HK$6,516,000 (2016: approximately HK$3,354,000) and revenue from its clinic operations that amounted to approximately HK$5,102,000 (2016: approximately HK$7,535,000). The Group's gross profit and gross profit margin for the year ended 31 December 2017 amounted to HK$5,233,207 and 45% (2016: HK$5,845,950 and 54%) respectively. The decrease in gross profit margin was the result of a lower gross profit margin for selling TCM plus skincare products. The Group's other revenue for the year ended 31 December 2017 amounted to HK$253K, a decrease of 22% compared to the year ended 31 December 2016.

(ii) Operating ***expenses***

The Group's distribution costs for the year ended 31 December 2017 amounted to HK$8,201,317 which increased by 1009.99% as compared to the year ended 31 December 2016. It was mainly due to a one-off expense on launching and promotion of AKFS PLUS series products amounted to approximately HK$3,157,000 and the royalty fee for the year ended 31 December 2017 amounted to approximately HK$4,184,000. The Group's administrative expenses for the year ended 31 December 2017 were approximately HK$13,350,000 compared to approximately HK$16,595,000 for the year ended 31 December 2016, a decrease of 19.55% as there was a royalty fee of approximately HK$2,500,000 classified under administrative expenses in 2016 and in current year, the royalty fee is classified under distribution expenses.

(iii) Loss and loss per share

The Group's loss for the year amounted to HK$17,269,618 (2016: HK$11,488,841). As a result, the Group's basic and diluted loss per share for the year was HK$0.24 (2016: HK$0.17).

The Directors do not recommend the payment of a dividend.

(iv) Balance sheet items

The Group's tangible fixed assets as at 31 December 2017 amounted to HK$892,342 which mainly comprised leasehold improvements, furniture and fixtures and office equipment. The Group's tangible fixed assets decreased by approximately HK$1,096,000 compared with approximately HK$1,988,000 as at 31 December 2016 mainly due to the depreciation of fixed assets for the year.

The Group's other intangible assets as at 31 December 2017 amounted to HK$4,285,714 which represented a decrease of approximately HK$357,000 compared with approximately HK$4,643,000 as at 31 December 2016 due to an amortisation for the year.

The Group's goodwill as at 31 December 2017 was valued at HK$485,999 with a decrease of approximately HK$440,000 compared with approximately HK$926,000 as at 31 December 2016 due to a recognised impairment for goodwill of a subsidiary.

The Group's inventories as at 31 December 2017 amounted to HK$7,366,776 with a decrease of approximately HK$557,000 over the balance as at 31 December 2016.

Inventories mainly consisted of TCM and healthcare products purchased during the year.

The Group’s trade payables as at 31 December 2017 amounted to HK$935K with an decrease of HK$3,891K over the balance as at 31 December 2016. The deduction mainly due to the Company settles skincare products trade payable.

The Group’s cash and cash equivalents increased from HK$3,045K as at 31 December 2016 to HK$3,891K as at 31 December 2017. For details of these movements, please refer to the Group’s cash flow statement included in the non-statutory group financial statements.

Outlook

The Company’s immediate and long term objective is to expand its TCM based product portfolio and it is, for that purpose, actively promoting the TCM Fast-Moving Consumer Goods (“FMCG”) side of the business. Our Board believes that the introduction of TCM FMCG product ranges skin-care and hair-care products will enable the Company to promote a TCM culture and products to customers in different age groups and capture a wider customer base in Asia including but not limited to Hong Kong and Mainland China.

Our Board will continue to work towards this and will actively look to building distribution channels both online and offline. The Company is near the end of negotiations with a few large distributors and is confident that the launch of “AKFS Plus”, the TCM hair-care product linked with Aaron Kwok, will lead to a significant growth in sales in the coming years.

Regarding our medical business, we will continue to maintain and provide professional TCM services to our patients and we believe that it will promote the brand name of “MiLOC” including the medical services while we continue to input more resources for the marketing of our TCM FMCG products. This will eventually bring more business and positive revenue to the Group.

Finally, on behalf of the Board of Directors, I would like to extend our utmost appreciation to all our employees, partners, shareholders, customers, business associates and suppliers, for their continued support.

Chow Ching Fung
Chairman

The financial information in this announcement is derived from the Group’s audited consolidated financial statements for the year ended 31 December 2017 which are available at the Company’s website www.miloc.com.

The Directors of the Company accept responsibility for the contents of this announcement.

For further information, please contact:-

MiLOC
ONG Ban Poh Michael - Chief Executive Officer Tel: +852 2110 4221
Ronnie CHOI – Chief Financial Officer

NEX Exchange Corporate Adviser Tel: +44 (0) 20 7469 0930
PETERHOUSE CAPITAL LIMITED
Guy Miller
Mark Anwyl

MiLOC Group Limited
Consolidated Statement of Comprehensive Income
For the year ended December 2017

	Notes	2017		2016
From continuing operations		*HK$*		*HK$*
Revenue	*3*	11,618,098		10,889,218
Cost of sales		(6,384,891)		(5,043,268)
Gross profit		5,233,207		5,845,950
Other revenue	*3*	253,146		323,161
Distribution costs		(8,201,371)		(738,874)
Administrative expenses		(13,350,470)		(16,594,915)
Foreign exchange gain/ (loss), net		(282,949)		14,972
Adjusted Operating loss	*4*	(16,348,437)		(11,149,706)
Impairment loss for intangible asset and goodwill		(439,872)		(497,278)
Operating loss		(16,788,309)		(11,646,984)
Finance costs	*5*	(481,311)		158,086
Interest income		2		57
Loss before taxation		(17,269,618)		(11,488,841)
Taxation	*6*	-		-
Loss for the for year		(17,269,618)		(11,488,841)
Other comprehensive income		-		-
Total comprehensive result for the year		**(17,269,618)**		**(11,488,841)**
Attributable to:				
The equity holders of the parent entity		(17,269,618)		(11,488,841)
Non-controlling interests		-		-
Loss per share – from continuing operations (HK$)		(17,269,618)		(11,488,841)
Basic	*9*	(0.24)		(0.17)
Diluted	*9*	(0.24)		(0.17)

MiLOC Group Limited
Consolidated Statement of Financial Position
As of 31 December 2017

	Notes	As at 31 December 2017 HK$	As at 31 December 2016 HK$
Assets			
Non-current assets			
Fixed assets	*10*	892,342	1,987,803
Other intangible assets	*11*	4,285,714	4,642,857
Goodwill	*12*	485,999	925,871
		5,664,055	7,556,531
Current assets			
Inventories	*14*	7,366,776	7,923,958
Trade receivables	*15*	369,824	235,748
Other receivables and prepayments	*16*	776,015	899,173
Cash and cash equivalents	*18*	3,891,331	3,045,423
		12,403,946	12,104,302
Total assets		**18,068,001**	**19,660,833**
Equity and liabilities			
Equity			
Share capital	*19*	582,022	551,114
Share premium		65,027,334	53,364,884
Retained earnings		(67,413,478)	(50,143,860)
Total equity		(1,804,122)	3,772,138
Liabilities			
Current liabilities			
Trade payables		934,687	6,335,533
Other payables and accruals	*20*	11,459,155	2,555,882
Amounts due to directors	*17*	2,111,056	2,111,366
		14,504,898	11,002,781
Non-current liabilities			
Borrowings	*21*	5,367,225	4,885,914
Total liabilities		19,872,123	15,888,695
Total equity and liabilities		**18,068,001**	**19,660,833**

MiLOC Group Limited
Consolidated Statement of Cash Flows
For the year ended 31 December 2017

	Notes	As at 31 December 2017		As at 31 December 2016
		HK$		*HK$*
OPERATING ACTIVITIES				
Cash used in operations	*21*	(10,845,052)		(9,738,073)
INVESTING ACTIVITIES				
Purchase of fixed assets		(2,400)		(2,470,816)
Interest received		2		-
Net cash used in investing activities		(2,398)		(2,470,816)
FINANCING ACTIVITIES				
Issuance of shares		11,693,358		9,125,000
Issuance of convertible bonds		-		5,044,000
Interest		-		(158,086)
Profits tax payment		-		-
Net cash generated from financing activities		11,693,358		14,010,914
Net increase / (decrease) in cash and cash equivalents		845,908		1,802,025
Cash and cash equivalents at beginning of year		**3,045,423**		**1,243,398**
Cash and cash equivalents at end of year		**3,891,331**		**3,045,423**

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in (i) the provision of healthcare services, through and by the application of Traditional Chinese Medicine ("TCM") and medical products as well as therapies and consultations through a network of clinics in Hong Kong, and (ii) the sale and distribution of TCM healthcare and skincare products via wholesale outlets and TCM clinics, the Group's retail store in Hong Kong via other non-related TCM retail outlets, as well as directly to customers through the Company's online store. Revenue recognised during the year can be analysed as follows:

	2017		2016
	HK$		*HK$*
Revenue			
Sales of TCM healthcare and skincare products	6,516,331		3,353,699
Provision of TCM healthcare services	5,101,767		7,535,519
	11,618,098		10,889,218
Other revenue			
Management fee	240,000		253,000
Others	13,146		70,161
	253,146		323,161
Total revenue and other revenue	11,871,244		11,212,379

37.35% of revenue (2016: 13.66%) generated from a Taiwan based distributor.

The Board of Directors has determined that the business should comprise two business segments, namely, (1) revenues from the sales of TCM healthcare and skincare products and (2) TCM healthcare business.

(a) Segment results, assets and liabilities

The business is organised into two segments as above. The financial information for each segment is provided to the executive management where the performance of each segment is reviewed and decisions on the allocation of resources to each segment are made.

The TCM Healthcare Services: this segment comprises the provision of TCM healthcare services, including consultations and TCM therapies. Currently, the Group's activities in this segment are carried out only in Hong Kong.

The Sale and Distribution of TCM Healthcare and Skincare Products: this segment operates wholesale outlets and TCM clinics, the Group's retail store in Hong Kong and other non-related TCM retail outlets, as well as the Company's online store. Currently, the Group's activities in this segment are carried out only in Hong Kong.

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include trade payables, other payables and accruals attributable to operating activities of the individual segments.

Revenue and expenses are allocated separately to each segment by reference to revenue generated by those segments and the expenses incurred by those segments. Segment ‘other revenue and expenses’ do not include the Group’s interest income, finance costs and taxation expenses.

The table below explains the profit/(loss) from each segment and the contribution each makes towards the overall performance of the Group. In each case, finance costs, interest, taxation, head office and general expenses that are not specifically attributable to one or other of the segments, have been excluded.

Information regarding the Group’s reportable segments as provided to the Group’s senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2017 and 2016 is set out below:

	For the year ended 31 December 2017		
	Sale of TCM Healthcare and Skincare Products	**TCM Healthcare Services**	**Total**
	HK$	***HK$***	***HK$***
Revenue - External sales	6,516,331	5,101,767	11,618,098
Cost of sales	(3,638,602)	(2,746,289)	(6,384,891)
Gross profit	2,877,729	2,355,478	5,233,207
Other revenue	673	252,162	252,835
Distribution costs	(8,198,070)	(3,300)	(8,201,370)
Administrative expenses	(7,322,424)	(2,610,097)	(9,932,521)
Segment profit/(loss)	(12,642,092)	(5,757)	(12,647,849)
General group operating costs (including professional fees and directors remuneration)			(3,700,587)
Operating loss			(16,348,436)
Impairment loss for goodwill			(439,872)
Finance costs			(481,311)
Interest income			2
Loss before taxation			(17,269,617)
Taxation			-
Loss for the year			(17,269,617)

	For the year ended 31 December 2017				
	Sale of TCM Healthcare and Skincare Products		**TCM Healthcare Services**		**Total**
	HK$		***HK$***		***HK$***
Additions of					
- Fixed assets	-		2,400		2,400
Depreciation of					
- Fixed assets	1,085,346		12,516		1,097,862
Segment assets	16,123,375		1,896,226		18,019,601
Segment liabilities	628,138		3,995,372		4,623,510

	For the year ended 31 December 2016				
	Sale of TCM Healthcare and Skincare Products		**TCM Healthcare Services**		**Total**
	HK$		***HK$***		***HK$***
Revenue - External sales	3,353,699		7,535,519		10,889,218
Cost of sales	(991,664)		(4,051,604)		(5,043,268)
Gross profit	2,362,035		3,483,915		5,845,950
Other revenue	58,888		264,273		323,161
Distribution costs	(593,283)		(145,591)		(738,874)
Administrative expenses	(8,759,601)		(3,636,160)		(12,395,761)
Segment loss	(6,931,961)		(33,563)		(6,965,524)
General group operating costs (including professional fees and directors remuneration)					(4,184,182)
Operating loss					(11,149,706)
Impairment loss for goodwill					(497,278)
Finance costs					158,086
Interest income					57
Loss before taxation					(11,488,841)
Taxation					-
Loss for the year					(11,488,841)

	For the year ended 31 December 2016				
	Sale of TCM Healthcare and Skincare Products		**TCM Healthcare Services**		**Total**
	HK$		***HK$***		***HK$***
Additions of					
- Fixed assets	2,435,541		35,275		2,470,816
Depreciation of					
- Fixed assets	485,467		14,964		500,431
Segment assets	17,388,977		2,225,203		19,614,180
Segment liabilities	5,435,517		5,336,723		10,772,240

(b) Reconciliation of reportable segment assets and liabilities

	As at 31 December 2017		**As at 31 December 2016**
	HK$		***HK$***
Assets			
Reportable segment assets	17,813,435		19,614,180
Unallocated head office and corporate assets	254,566		46,653
Consolidated total assets	18,068,001		19,660,833
Liabilities			
Reportable segment liabilities	9,191,294		10,772,240
Current tax payable	-		-
Unallocated head office and corporate liabilities	10,680,829		5,116,455
Consolidated total liabilities	19,872,123		15,888,695

(c) Geographic information

In addition to this, the board also considers segmental information from a geographic perspective.

The vast majority of the Group's operations up to the date of the statement of financial position have been located in Hong Kong, therefore, significantly all of the Groups' revenue is attributable to Hong Kong.

4. ADJUSTED OPERATING LOSS

Adjusted operating loss is arrived at after charging the following:

	2017		2016
	HK$		*HK$*
Auditor's remuneration	300,323		426,479
Depreciation of fixed assets	1,097,861		500,431
Impairment for fixed assets	-		-
Impairment for inventories (included within cost of sales)	-		-
Operating lease charges: minimum lease payments for properties	2,614,714		3,354,899
Exchange loss / (gain), net	282,949		(14,972)

5. FINANCE COSTS

	2017		2016
	HK$		*HK$*
Others	-		-
Fair value movement on derivative (note 21)	-		349,098
Interest	(481,311)		(191,012)
	(481,311)		158,086

The fair value movement on derivative and interest are generated from borrowings stated in note 21.

6. TAXATION

Deferred tax asset in the consolidated statement of financial position represents:

	2017		2016
	HK$		*HK$*
Deferred tax asset b/f	-		-
Written down of the deferred tax asset	-		-
Deferred tax asset c/f	-		-

The deferred tax asset relates to the expected future utilistaion of tax losses against future taxable profits amounting to approximately HK$Nil (2016: HK$Nil). The amount of losses that are available but in respect of which no deferred tax asset has been recognised amounted to HK$41,577,434 (2016:

HK$24,335,351). No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

Taxation in the consolidated statement of comprehensive income represents:

	2017	2016
	HK$	*HK$*
Hong Kong corporate income tax		
- Provision for the current year	-	-
- Under/(Over)-provision in the previous year	-	-
- Deferred tax – relating to tax loss	-	-
- Write down of the deferred tax assets	-	-
	-	-

A reconciliation between tax expenses/(credit) and accounting profit at applicable tax rate is as follows:

	2017	2016
	HK$	*HK$*
Loss before taxation	17,269,618	11,488,841
Loss multiplied by standard rate of corporation tax in Hong Kong of 16.5%	(2,849,487)	(1,895,659)
Effect of:		
Items not deductible for tax purposes	510,126	
Items deductible for tax purposes	(17,462)	-
Losses carried forward	2,356,823	1,895,659
	-	-

A deferred tax asset has been written down in respect of the carry forward of unused tax losses carried forward at the year end on the expectation of future period profits.

7. STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS) AND EMPLOYEE BENEFITS

	2017		2016
	HK$		*HK$*
Salaries, wages and other benefits	3,283,959		2,620,842
Contributions to defined contribution plan	155,184		123,708
	3,439,143		**2,744,550**

8. COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2017		2016
	HK$		*HK$*
Salaries and other short-term benefits:			
-Salaries and allowances	3,360,000		3,280,000
-Retirement scheme contribution	30,000		30,000
	3,390,000		**3,310,000**

The Directors and CFO of the Group represent the Group's key management personnel. Each of Messrs Professor Chow Ching Fung, Ong Ban Poh Michael, Ow Kian Jing Dennis, Ivor Colin Shrago each entered into a service agreement with the Company for an initial term commencing from 20 December 2010 to 19 December 2011.

The service agreements have since been renewed on a yearly basis.

9. EARNING PER SHARE – BASIC

Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2017		2016
	HK$		*HK$*
Losses attributable to equity holders of parent entity	(17,269,618)		(11,488,841)
Number of shares			
Weighted average number of ordinary shares in issue	72,309,826		69,633,964
Loss per share	0. 24		0.17

Diluted loss per share is not presented on the basis that the effect of potential dilutive shares would be anti-dilutive and therefore are not included in the above calculation. Diluted earnings per share is therefore the same as earnings per share.

10. FIXED ASSETS

		Leasehold improvements	Furniture & fixtures	Office equipment	Total
		HK$	*HK$*	*HK$*	*HK$*
Cost At 1 January 2016		296,650	198,675	715,749	1,211,074
Written off		(296,650)	(135,535)	(440,979)	(873,164)
Additions		2,308,039	16,947	145,830	2,470,816
At 31 December 2016		2,308,039	80,087	420,600	2,808,726
Accumulated Depreciation At 1 January 2016		296,650	195,852	699,079	1,191,581
Written off		(296,650)	(135,535)	(440,979)	(873,164)
Charge for the year		463,269	6,317	32,920	502,506
At 31 December 2016		463,269	66,634	291,020	820,923
Net book value					
At 31 December 2016		1,844,770	13,453	129,580	1,987,804
Cost At 1 January 2017		2,308,039	80,087	420,600	2,808,726
Additions		-	2,400	-	2,400
At 31 December 2017		2,308,039	82,487	420,600	2,811,126
Accumulated Depreciation At 1 January 2017		463,269	66,634	291,020	820,923
Charge for the year		1,064,106	3,869	29,886	1,097,861
At 31 December 2017		1,527,375	82,487	420,600	1,918,784
Net book value					
At 31 December 2017		780,664	11,984	99,694	892,342

11. OTHER INTANGIBLE ASSETS

		Patent of Rorrico		Total
		HK$		*HK$*
Cost				
At 1 January 2016		5,000,000		5,000,000
At 31 December 2016		5,000,000		5,000,000
Accumulated amortisation				
At 1 January 2016		-		-
Amortisation for the year		357,143		357,143
At 31 December 2016		357,143		357,143
Net book value				
At 31 December 2016		4,642,857		4,642,857
Cost				
At 1 January 2017		5,000,000		5,000,000
At 31 December 2017		5,000,000		5,000,000
Accumulated amortisation				
At 1 January 2017		357,143		357,143
Amortisation for the year		357,143		357,143
At 31 December 2017		714,286		714,286
Net book value				
At 31 December 2017		4,285,714		4,285,714

Patent of Rorrico:

In 2010, the Group acquired the intellectual property rights to Rorrico, a TCM for the treatment of influenza viruses, including the Influenza A virus and its sub-type virus, pandemic Influenza A (H1N1) or Swine flu. On 27 July 2011, the State Intellectual Property Office of the PRC granted the Rorrico Paten (the "Patent"). The group does not generate revenue from the patent as it is dependent on an outbreak of Swine flu occurring.

Previously the Patent was not amortised as it was considered to be under development. On the basis of medical research performed in the year to 31 December 2016 on the Rorrico patent that proved its ability as a TCM for the treatment of the influenza virus, management have begun to amortise the patent over its remaining useful life of 14 years. Initial valuations and valuations for subsequent impairment tests are based on established market multiples or risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgmental. Future events could cause the assumptions used in these impairment reviews to change with a consequent adverse effect on the future results of the Group.

The Patent is reviewed annually for any indication of impairment applying a value in use methodology and assumes an outbreak of Swine flu in the following period, generally using five year pre-tax cash flow forecasts with a terminal value calculation and a discount rate of 25%, adjusted where appropriate for country-specific risks. The main assumptions include future sales price and volume growth, product contribution and the future expenditure required to maintain the product's marketability. These assumptions are based on past experience and are reviewed as part of management's budgeting and strategic planning cycle for changes in market conditions and sales erosion through competition. The terminal growth rate applied of 3% is management's estimates of future long-term average growth rate of the relevant markets. In each case the valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the Patent.

As an outbreak of Swine flu cannot be predicted, management also have regard to the market activity in other TCM patents, on the basis of this market research they have concluded the patent has a value in excess of its carrying value.

12. GOODWILL

		2017 HK$		2016 HK$
Balance at the beginning of the year		925,871		1,423,149
Impairment for the year		(439,872)		(497,278)
Balance at the end of the year		485,999		925,871

Impairment tests for cash-generating units (CGU) continuing goodwill

At 31 December 2015 the carrying value of goodwill related to two cash generating units, a store and a clinic in the following ratio (7:13). The carrying value of Goodwill relating to the Store at 31 December 2016 was HK$0. This amount represented all the carrying value attributable to the cash generating unit. The carrying value of Goodwill relating to the clinic at 31 December 2016 was HK$925,871, during the year the recoverable amount of this asset was assessed to be HK$485,999 and the assets associated with this cash generating unit have been written down to HK$485,999 on the basis of the value in use calculation the Goodwill allocated to the store was written off during the period. Cash flows are extrapolated using the estimated rates stated below. These calculations use cash flow projections based in financial budgets approved by management covering a one-year period. Cash flow projections are extrapolated up to a period of 5 years by using the estimated rates stated below. The growth rate does not exceed the long term average growth rate for the business in which the CGU operates. A sensitivity analysis has been performed on these calculations in respect of a decrease of growth rates. Further impairments would be required if the margin and discount rates used in the model were altered. If the margin was decreased by two percentage points the Goodwill would be fully impaired. If the discount rate was increased by two percentage points a further impairment of HK$51,454 would be required.

Key assumptions used for value-in use calculation are as follows:

		2017		2016
Gross margin		47%		51%
Growth rate		0%		5%
Discount rate		17%		17%

13. INTEREST IN SUBSIDIARIES

As at the date of this report, the Company has the following subsidiary undertakings which make up the Group:

Name of subsidiary	Date and place of incorporation	%	Acquired from:	Principal activities
Interests held directly by the Company:				
Cash generating unit:				
MiLOC Pharmaceutical Limited	20 November 2009, BVI	100%	Professor Chow Ching Fung	TCM sales and distribution
MiLOC Medical Limited	16 March 2010, BVI	100%	Professor Chow Ching Fung	TCM Clinics
Non-cash generating unit:				
MiLOC Biotechnology Limited	6 November 2009, BVI	100%	Professor Chow Ching Fung and ONG, Ban Poh Michael	Research and development
Interests held indirectly by the Company:				

Cash generating unit:				
MiLOC Pharmaceutical (HK) Ltd	9 March 2011, HK	100%	N/A	Retailing and wholesaling of healthcare and skincare and related products
MiLOC Clinics Limited	15 February 2011, BVI	100%	N/A	Receipt of royalty fee from clinics
MiLOC Medical Limited	24 January 2011, HK	100%	N/A	Provision of medical services
MiLOC Medical Jor1 Limited	25 September 2007, HK	100%	Golden Ace Holdings Limited	Provision of Chinese medical services
MiLOC Clinics Jor2 Limited	19 July 2010, HK	100%	Chan Chi Hang	Provision of Chinese medical services
MiLOC Store Limited	18 October 2010, HK	100%	Golden Ace Holdings Limited	Retailing and wholesaling of healthcare and related products
上海殿舜媚生物科技有限公司	15 November, 2016, PRC	100%	N/A	Retailing and wholesaling of haircare products
Non-cash generating unit:				
Smart Falcon Limited	3 December 2009, BVI	100%	He Yu and Professor He Zhong Sheng	Holding company of intellectual property rights, including the Rorrico patent
MiLOC Clinics (HK) Limited	15 March 2011, BVI	100%	N/A	Dormant
Golden Ace Holdings Limited	28 September 2010, BVI	100%	LEE Mun Keat	Investment holding company
MiLOC Pharmaceutical (Macau) Limited	9 June 2011, Macau	100%	N/A	Retailing, wholesaling, import and export of TCM products

14. INVENTORIES

The inventories as at 31 December 2017 and 2016 are as follows.

		2017		**2016**
		HK$		***HK$***
Finished goods		7,366,776		7,923,958

Provision for the year		-		-
		7,366,776		7,923,958

15. TRADE RECEIVABLES

All balances are aged within one year and are expected to be recovered within one year. No amounts are past due or impaired.

16. OTHER RECEIVABLES AND PREPAYMENT

		2017		2016
		HK$		*HK$*
Deposits paid		622,950		745,860
Other receivables		153,065		146,760
Prepayment		-		6,553
		776,015		899,173

Others receivables and Prepayment are expected to be recovered or recognised as expenses within one year. No amounts are past due or impaired.

17. RELATED PARTY TRANSACTIONS

Transactions between the Group and its related parties as at 31 December 2017 and 2016 were as follow:

		2017		**2016**
		HK$		***HK$***
Amount due to directors		2,111,056		2,111,366

The above amounts are due to director of Company subsidiaries. The amounts are unsecured, interest free and repayable on demand.

Apart from the above amount from/to the related companies, significant transactions between the Group and its related parties for the 31 December 2017 and 2016 were as follows:

	2017		**2016**
	HK$		***HK$***
Purchases from Green Health Supplement International Company	364,753		341,026

At 31 December 2017, the trade payable to Green Health Supplement International Company is HK$482,301 (2016: HK$284,771)

Professor Chow Ching Fung, executive director, is a partner in Green Health Supplement International Company, a partnership company.

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2017 and 2016 comprise:

	2017	2016
	HK$	*HK$*
Cash at bank and in hand	3,891,331	3,045,423

19. SHARE CAPITAL

		2017	2016
		HK$	HK$
Authorised,			
100,000,000 ordinary shares of US$0.001 each			
Allotted and fully paid:			
No. of shares:			
At the beginning and end of the year		70,815,289	68,011,248
Issuance of shares		3,962,614	2,804,041
At the end of the year		74,777,903	70,815,289
Amount:			
At the beginning and end of the year		551,114	529,242
Issuance of shares		30,908	21,872
At the end of the year		582,022	551,114

On 27 and 28 April 2017, the Company entered into a total of three agreements to issue 622,266 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$1,800,401. These placings and allotments were completed during May 2017.

On 2 and 5 May 2017, the Company entered into a total of two agreements to issue 345,285 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$1,000,000. These placings and allotments were completed during May 2017.

On 15 June 2017, the Company entered into an agreement to issue 348,681 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$1,000,000. The Company also agreed to pay a referral fee of 3% of the fundraising amount to a consultant of the Company by allotting and issuing a total of 10,460 new ordinary shares of US$0.001 each at a price of 30.0p per share. These placings and allotments were completed during July 2017.

On 5, 13 and 19 July 2017, the Company entered into four agreement to issue 582,280 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$1,700,000. This placing was completed during July 2017.

On 25 August 2017, the Company entered into an agreement to issue 85,873 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$250,000. This placing was completed during Oct 2017.

On 4 and 26 October 2017, the Company entered into a total of four agreements to issue 1,893,859 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$5,679,006. The Company also agreed to pay a referral fee of 5% of the fundraising amount to consultants of the Company by allotting and issuing a total of 73,910 new ordinary shares of US$0.001 each at a price of 30.0p per share. These placings and allotments were completed during Oct 2017.

On 14, 15, 22 and 27 December 2017, the Company entered into a total of four agreements to issue 1,684,551 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$5,106,010. The Company also agreed to pay a referral fee of 5% of the fundraising amount to a consultant of the Company by allotting and issuing a total of 78,283 new ordinary shares of US$0.001 each at a price of 30.0p per share. These placings and allotments were completed during January 2018.

20. OTHER PAYABLES AND ACCRUALS

	2017	2016
	HK$	***HK$***
Receipts in advance	5,402,727	310,773
Accruals	6,056,428	2,245,109
	11,459,155	2,555,882

21. BORROWINGS

	2017	2016
	HK$	***HK$***
Due within one year	-	-
	-	-
Due are more than one year but less than two years	5,367,225	4,885,914
	5,367,225	4,885,914

On 19th July 2016 the Company issued a redeemable convertible loan note. The key terms are as follows:

Issue date : 19 July 2016
Maturity date : 19 January 2018
Interest rate : 0% for first 12 months, 6% thereafter

On 29th December 2017, the Company revised principal terms are as follows:

Maturity date : 19 January 2019
Interest rate : 7.2% per annum
The conversion right is contingent on whether the company achieves a listing on the main market of the London Stock Exchange. If this is achieved then the note holder can convert the principal at a 20% discount to the opening share price on the main market.

On the basis that the contingent derivative cannot be estimated reliably the company has present valued the cash flows inherent in the loan at the market rate of interest of 9% and assigned the residual value to the derivative instrument. At recognition the fair value of the derivative element was HK$345k.

At 31 December 2016 and 2017 management considered listing was unlikely to be achieved and therefore the fair value of the derivative was £nil. The fair value movement on the derivative is shown as part of finance costs in the year ended 31 December 2016. The interest on the loan to 31 December 2017 was HK$481k (2016 HK$191k).

22. CASH USED IN OPERATIONS

Reconciliation of loss before taxation to cash used in operations:

		2017		2016
		HK$		*HK$*
Loss before taxation		(17,269,618)		(11,488,841)
Adjustments:				
Depreciation of fixed assets		1,097,861		502,506
Amortisation of intangible assets		357,143		357,143
Impairment loss for intangible asset and goodwill		439,872		497,278
Interest income		(2)		-
Interest expenses		481,311		-
Operating cash flow before changes in working capital		(14,893,433)		(10,131,914)
Decrease / (increase) in inventories		557,182		(5,436,544)
(Increase) / (decrease) in trade receivables		(134,076)		14,987
Decrease in other receivables and prepayments		123,158		1,173,801
(Decrease) / increase in trade payables		(5,400,846)		5,835,918
Increase / (decrease) in other payables and accruals		8,903,273		(1,194,321)
Decrease in amount due to shareholders		(310)		-
Cash used in operations		(10,845,052)		(9,738,073)

23. COMMITMENTS UNDER OPERATING LEASES

The Group had future aggregate minimum lease payments under non-cancellable operating leases respect to office premises as follows:

		2017		2016
		HK$		*HK$*
Not later than one year		1,532,100		1,734,000
Later than one year but less than five years		295,156		1,228,500
		1,827,256		2,962,500

24. FINANCIAL ASSETS AND RISK

The Group has exposure to credit risk, liquidity risk, interest rate risk and foreign currency risk as a result of its operations. The Board of Directors has overall responsibility for establishing and monitoring the Group's risk management policies and processes. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

All treasury transactions are reported to and approved by the Board. The Group does not enter into or trade financial instruments for speculative purposes.

The principal risks to which the Group is exposed are market risk including currency risk, credit risk, liquidity risk and interest rate risk.

The Group has the following categories of financial assets and liabilities at the balance sheet date:

	2017	2016
	HK$	***HK$***
	Loan and receivables	**Loan and receivables**
Financial assets		
Trade receivables	369,824	235,748
Other receivables	153,065	146,760
Cash and cash equivalents	3,891,331	3,045,423
	4,414,220	3,427,931
	Other financial liabilities	**Other financial liabilities**
Financial liabilities		
Trade payables	934,687	6,335,533
Borrowings	5,367,225	4,885,914
Amount due to directors	2,111,056	2,111,366
Accruals	6,056,428	2,245,109
	14,469,396	15,577,922

The carrying value of financial instruments included in the above table approximates to their fair value.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations and is primarily attributable to its trade receivables. Any impairment of doubtful receivables is estimated by the Group's management based on prior experience and the current economic environment. The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date was:

	2017	2016
	HK$	*HK$*
Trade receivables	369,824	235,748
Other receivables	153,065	146,760
Cash and cash equivalents	3,891,331	3,045,423
	4,414,220	3,427,931

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk.

Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market prices. The principal ways in which the Group is exposed to such fluctuations are through currency risk and interest rate risk.

Interest rate risk

The Group is exposed to interest rate risk on cash and cash equivalents. Assuming that all other variables remain constant, an increase of 100 basis points in interest rates would have increased equity and profit and loss by HK$38,913 (2016: HK$30,454). A corresponding decrease would have an equal but opposite effect.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. See going concern assessment within the Directors' Report. The contractual cash flows of financial liabilities are considered to be equal to their carrying amount in the balance sheet, and the maturities are all expected to be within one year.

	2017	2016
	HK$	*HK$*
Financial liabilities due within one year		
Trade payables	934,687	6,335,533
Amount due to directors	2,111,056	2,111,366
Accruals	6,056,428	2,245,109
	9,102,171	10,692,008

The settlement of the financial liabilities due within one year is reliant on future Company fund raising, the sale of inventory and the collection of trade receivables.

The group has a borrowing of HK$5,367,225 that is due for repayment in January 2019, the groups cash flow projections show that they will have adequate funds available at the repayment date even if future funding raising does not occur. See basis of preparation section of note 2 for more details regarding the cashflow projections and going concern.

Currency risk management

The Group is exposed to currency risk on financial assets of HK$323,406 (2016: HK$976) that are denominated in currencies other than Hong Kong dollars.

The Group operates mainly out of Hong Kong and its operations are denominated in Hong Kong dollar and a majority of the assets and liabilities are in that currency. The only fluctuation to the reporting currency of HK$ would be in relation to the translation at the year end to the reporting currency.

The Group has used a sensitivity analysis technique that measures the estimated change to the income statement and equity of a 10% strengthening and weakening in HK$ against all other currencies, with all other variables remaining constant. The sensitivity analysis includes only outstanding foreign currency denominated assets and liabilities and adjusts their translation at the balance sheet date for a 10% change in the applicable currency rate.

Under this assumption, with a 10% strengthening or weakening of HK$ against all exchange rates, loss before taxation would have increased or decreased respectively by US$4,138 (2016: US$13).

25. CAPITAL MANAGEMENT

The Board's policy is to manage its overall capital so as to ensure that companies within the Group continue to operate as going concerns and to maintain sufficient financial flexibility to undertake planned productions and investments.

The Groups' capital structure currently represents the equity attributable to the shareholders together with the cash and cash equivalents. The structure is reviewed on a quarterly basis to ensure that an appropriate level of gearing is being used.

26. SHARE BASED COMPENSATION

72,161 conditional share options were granted to one adviser of the company in 2010. The exercise price of the granted options is at the listing price of GBP0.33 per share on NEX. The options are is exercisable by notice to the Company at any time during the five year period commencing on the date of Admission.

In 2010, the compensation cost with respect to the outstanding plan, which are equity settled instruments, was minimal and no expenses were recognised in the income statement.
During the year ended 31 December 2015 all outstanding options lapsed.

During the year ended 31 December 2017 and 2016, there were no share options granted.

27. POST BALANCE SHEET EVENT

(a) Private Placings

On 14, 15, 22 and 27 December 2017, the Company entered into a total of four agreements to issue 1,684,551 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$5,106,010. The Company also agreed to pay a referral fee of 5% of the fundraising amount to a consultant of the Company by allotting and issuing a total of 78,283 new ordinary shares of US$0.001 each at a price of 30.0p per share. These placings and allotments were completed during January 2018.

On 26 February 2018, the Company entered into a placing agreement to issue 313,396 new US$0.001 ordinary shares at a placing price of 28.5p per share to raise approximately

HK$1,000,000. The Company also agreed to pay a referral fee of 5% of the fundraising amount to a consultant of the Company by allotting and issuing a total of 14,887 new ordinary shares of US$0.001 each at a price of 30.0p per share. The placing and allotment were completed during March 2018.

(b) Convertible Bond

On 19 January 2018, the Company entered into an extension agreement for the Convertible Bond. The maturity date extended to 19 January 2019 and the coupon rate increased from six percent (6%) per annum to seven point two percent (7.2%) per annum. All other terms remain unchanged. Further details are disclosed in note 21.

(c) Incorporation of Subsidiaries

On 20 March 2018, MiLOC Pharmaceutical (HK) Limited ("MPHK"), one of the Group's subsidiaries, has signed a subscription agreement with Huge Port International Limited ("HPL"), a company incorporated in Hong Kong who is owned by one of our substantial shareholders, Mr. Liu Wei Hung, that HPL has agreed to invest RMB10,000,000 (Approximately £ 1,160,000) into Richmond Group Limited ("RGL"), a newly incorporated company in Hong Kong, of which HPL will own 33% of the issued share capital of RGL. MPHK is holding 57% of the shares of RGL and Mr. Yuan Fei, who is a resident of the People's Republic of China, is holding 10% of the shares of RGL and Mr. Yuan will contribute to the business with his experience and networks in China. The principal activity of RGL is investment holding.

On 28 April 2018, RGL has set up a wholly owned subsidiary namely Star Collaboration (Guangzhou) Limited ("StarC") in Guangzhou China with a registered capital of RMB10 million. The principal activity of StarC is the distribution of MiLOC's TCM hair-care and skin-care products.