26 May 2015

MiLOC Group Limited

Final audited results for the year ended 31 December 2014

MiLOC Group Limited (ISDX: ML.P), the ISDX quoted pharmaceutical and healthcare group (the “Company” or the “Group”), is pleased to announce its audited consolidated financial statements for the year ended 31 December 2014.

Key financial highlights:

- Revenues for the year ended 31 December 2014: HK$14,734K (2013: HK$18,107K)
- Loss for the year: HK$5,175K (2013: HK$999K)
- The basic and diluted loss per share for the year: HK$0.07 (2013: HK$0.02)
- The Group’s net cash position as at 31 December 2014: HK$5,032K (2013: HK$3,850K)

Professor Chow Ching Fung, Chairman of the Company said:

“The Group’s revenue for the year ended 31 December 2014 amounted to HK$14,734K which represents a 19% decrease compared with the year ended 31 December 2013. This was mainly due to the temporary closure of our clinics in the Yau Ma Tei and Central districts in Hong Kong while we reorganised their management and the Group’s shift in part of its capital investment to develop high margin skincare products which resulted in the Company having less current products available to sell in its stores. The Group’s distribution costs amounted to HK$362K which has increased by 156% as a result of more advertisements and promotions to promote the Group’s clinics and stores. The Group has implemented certain business strategies including acquisition and expansion of its product portfolio by developing new products, development and promotion of its retail stores, and strengthening of the Group’s services and products by cross-selling under the universal brand “MiLOC”. We anticipate moving to far stronger financial position during the coming year.

The Group’s key strategic initiatives are progressing well. In December 2014, the Group launched a new high quality TCM skincare product line called TCM PLUS. TCM PLUS skincare products include cleansers, moisturisers and facial creams which contain TCM ingredients such as Chinese lyceum fruit and saxifrage sarmentosa for different skin types and conditions. TCM Plus was designed by a Japanese designer and manufactured by a third party OEM manufacturer in Japan. The Group also plans to launch more third party OEM TCM healthcare and skin care products in future”.

The financial information in this announcement is derived from the Group’s audited consolidated financial statements for the year ended 31 December 2014 which are available at the Company’s website www.miloc.com. The Directors of the Company accept responsibility for the contents of this announcement.

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Chairman's Statement

I am very pleased to report the 2014 financial year results for MiLOC Group Limited.

The Group's revenue for the year ended 31 December 2014 amounted to HK$14,734K which represents a 19% decrease compared with the year ended 31 December 2013. This was mainly due to the temporary closure of our clinics in the Yau Ma Tei and Central districts in Hong Kong while we reorganised their management and the Group's shift in part of its capital investment to develop high margin skincare products which resulted in the Company having less current products available to sell in its stores. The Group's distribution costs amounted to HK$362K which has increased by 156% as a result of more advertisements and promotions to promote the Group's clinics and stores. The Group has implemented certain business strategies including acquisition and expansion of its product portfolio by developing new products, development and promotion of its retail stores, and strengthening of the Group's services and products by cross-selling under the universal brand "MiLOC". We anticipate moving to far stronger financial position during the coming year.

The Board believes that the introduction of the new skincare product range will enable the Group to promote TCM culture and products to customers in different age groups and capture a wider customer base in the daily skincare market. This is in-line with the Group's long term objective of expanding its TCM based product portfolio. The Group will also continue to further expand its market strategically through an online platform and physical stores elsewhere in other Asian countries including Taiwan and Japan.

Review of significant activities

July 2014

On 21 July 2014, the Company entered into agreements to issue 1,653,801 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$6,289,000. 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 49,614 new ordinary shares of US$0.001 each. The placing and allotment was completed during November 2014.

August 2014

On 19 and 21 August 2014, the Company entered into a total of five agreements to issue 1,232,955 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$4,582,155. These placings were completed during September 2014.

November 2014

Mr Chan Chi Hang and Miss Tung Chau Man ("the Claimants") were removed as directors of MiLOC Clinics Jor2 Limited ("Jor2"), following which, the Claimants issued proceedings against MiLOC Clinics Ltd ("MCL") and Jor2. The matter was ultimately settled and the Jor2 shares of Mr Chan and Miss Tung were acquired by the Group's subsidiaries. The Claimants no longer have any involvement in the Group's business.

The Jor2 clinics in the Yau Ma Tei and Central districts in Hong Kong were temporarily closed while the Company reorganised their management. However, the temporary closure of the two Jor2 clinics had an immediate, though temporary, impact on the cashflow of the Group as the revenue derived from the Jor2 clinics accounted for a significant portion of the Group's revenue. The two Jor2 clinics reopened and recommenced operations in January 2015.

Financial review

(i) Revenue and gross profit

The Group's revenue for the year ended 31 December 2014 amounted to HK$14,734K which represents a 19% decrease compared with the year ended 31 December 2013. This was mainly due to the temporary closure of our clinics in Yau Ma Tei and Central while we reorganised their management. The Group's revenue for the year included sales of TCM, that amounted to HK$5,177K (2013: HK$6,024K) and revenue from its clinic operations that amounted to HK$9,557K (2013: HK$12,082K). The Group's gross profit and gross profit margin for the year ended 31 December 2014 amounted to HK$9,905K and 67% (2013: HK$11,660K and 64%) respectively. The increase in gross profit margin was the result of the introduction of new products during the year.

(ii) Other revenue and operating expenses

The Group's other revenue for the year ended 31 December 2014 amounted to HK$267K, a decrease of 53% as compared to the year ended 31 December 2013. It was mainly due to the decrease of revenue from management and consultancy services. The Group's distribution costs for the year ended 31 December 2014 amounted to HK$362K which increased by 156% as compared to the year ended 31 December 2013. It was mainly due to higher advertising and promotion costs incurred in respect of the clinic and store services of the Group. The Group's administrative expenses for the year ended 31 December 2014 were HK$13,773K compared to HK$12,963K for the year ended 31 December 2013, a slight increase of 6%.

(iii) Loss and loss per share

The Group's loss for the year amounted to HK$5,175 (2013: HK$999K). As a result, the Group's basic and diluted loss per share for the year was HK$0.07 (2013: HK$0.02).

The Directors do not recommend the payment of a dividend in respect of the year.

(iv) Balance sheet items

The Group's tangible fixed assets as at 31 December 2014 amounted to HK$167K which mainly comprised leasehold improvements, furniture and fixtures and office equipment. The Group's tangible fixed assets decreased by HK$120K compared with HK$287K as at 31 December 2013 mainly due to depreciation.

The Group's other intangible assets as at 31 December 2014 amounted to HK$6,400K which represented a decrease of HK$233K compared with HK$6,633K as at 31 December 2013 principally due to the amortisation of intangible assets during the year.

The Group's goodwill as at 31 December 2014 was valued at HK$2,847K which is consistent with the amount as at 31 December 2013.

The Group's inventories as at 31 December 2014 amounted to HK$1,341K with a decrease of HK$14K over the balance as at 31 December 2013. Inventories mainly consisted of TCM and healthcare products purchased during the year.

The Group's trade payables as at 31 December 2014 amounted to HK$1,042K. This represents a significant decrease over the sum of HK$3,213K recorded for the year ending 31 December 2013. The decrease of trade payables is mainly due to the settlement of some of the trade payables which have been outstanding for more than one year with Green Health Supplement International Co.

The Group's cash and cash equivalents increased from HK$3,850K as at 31 December 2013 to HK$5,032K as at 31 December 2014. For details of these movements, please refer to the Group's cash flow statement included in the non-statutory group financial statements.

Outlook

The Group believes that there are significant growth opportunities in the TCM industry in Hong Kong which is attributable to the increasing emphasis by the Hong Kong Government on the development of TCM products and services in recent year; population growth and increased life expectancy, and, as a consequence of the improvement of quality standards in both China and Hong Kong, increased confidence and acceptance of TCM treatment and products as complementary to western medical treatments. The Group will continue to implement its business strategies including the acquisitions of other TCM healthcare services for geographic expansion and clientele, acquisition expansion of its product portfolio by developing new OEM products, development and promotion of retail stores, and strengthening of the Group's services and products by cross-selling under the universal brand "MiLOC".

High demand for skincare products and cosmetics from mainland Chinese tourists and increasing popularity of natural and organic skincare products are the growth opportunities for the Group while it launches its TCM PLUS skincare product line. In the future, the Group plans to launch further TCM healthcare and skincare products which will be manufactured by third party OEM manufacturers.

The Group is also exploring the possibility of listing on another stock exchange in the UK, and the Board believes that this will provide the Group with greater access to capital to achieve its business objectives of providing high quality and reliable TCM healthcare services and products.

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

Chow Ching Fung
Chairman

MiLOC Group Limited
Consolidated Statement of Comprehensive Income
For the year ended December 2014

	Notes	2014		2013
From continuing operations		*HK$*		*HK$*
Revenue	*3*	14,733,570		18,106,689
Cost of sales		(4,829,069)		(6,447,037)
Gross profit		9,904,501		11,659,652
Other revenue	*3*	266,629		568,377
Distribution costs		(362,339)		(141, 280)
Administrative expenses		(13,773,494)		(12,962,980)
Foreign exchange gains		(668,843)		5,194
Operating loss	*4*	(4,633,546)		(871,037)
Finance costs	*5*	-		(8)
Interest income		237		144
Loss before taxation		(4,633,309)		(870,901)
Taxation	*6*	(541,221)		(128,179)
Loss for the for year		**(5,174,530)**		**(999,080)**
Other comprehensive income		-		-
Total comprehensive result for the year		**(5,174,530)**		**(999,080)**
Attributable to:				
The equity holders of the parent entity		(4,596,276)		(1,193,996)
Non-controlling interests		(578,254)		194,916
		(5,174,530)		(999,080)
Loss per share – from continuing operations (HK$)				
Basic	*9*	(0.07)		(0.02)
Diluted	*9*	(0.07)		(0.02)

MiLOC Group Limited
Consolidated Statement of Financial Position
As of 31 December 2014

	Notes	As at 31 December 2014 HK$	As at 31 December 2013 HK$
Assets			
Non-current assets			
Fixed assets	10	166,912	287,211
Other intangible assets	11	6,400,000	6,633,333
Goodwill	12	2,846,964	2,846,964
Deferred tax assets	6	125,000	666,221
		9,538,876	10,433, 729
Current assets			
Inventories	14	1,340,581	1,354,823
Trade receivables	15	202,178	766,443
Other receivables and prepayments	16	4,885,840	772,502
Amount due from shareholders	17	-	152,907
Cash and cash equivalents	18	5,032,168	3,849,707
		11,460,767	6,896,382
Total assets		**20,999,643**	**17,330,111**
Equity and liabilities			
Equity			
Share capital	19	507,853	484,950
Share premium		34,939,238	23,902,317
Retained earnings		(33,871,278)	(29,275,002)
Equity attributable to the parent entity		1,575,813	(4,887,735)
Non-controlling interests		13,173,845	13,752,099
Total equity		14,749,658	8,864,364
Liabilities			
Current liabilities			
Trade payables		1,041,739	3,212,602
Other payables and accruals	20	2,411,880	2,384,336
Amount due to shareholders	17	-	72,443
Amounts due to directors	17	2,111,366	2,111,366
Taxation payable		685,000	685,000
		6,249,985	8,465,747
Total equity and liabilities		**20,999,643**	**17,330,111**

MiLOC Group Limited
Consolidated Statement of Cash Flows
For the year ended 31 December 2014

	Notes	**2014**	**2013**
		HK$	***HK$***
OPERATING ACTIVITIES			
Cash used in operations	***21***	(9,836,160)	(347,536)
INVESTING ACTIVITIES			
Purchase of fixed assets		(41,203)	(83,492)
Net cash used in investing activities		(41,203)	(83,492)
FINANCING ACTIVITIES			
Issuance of shares		11,059,824	1,400,000
Net cash generated from financing activities		11,059,824	1,400,000
Net increase in cash and cash equivalents		1,182,461	968,972
Cash and cash equivalents at beginning of year		**3,849,707**	**2,880,735**
Cash and cash equivalents at end of year		**5,032,168**	**3,849,707**

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in (i) the provision of TCM healthcare services, including consultations and TCM therapies, 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. Revenue recognised during the year can be analysed as follows:

	2014		2013
	HK$		*HK$*
Revenue			
Sales of TCM healthcare and skincare products	5,176,825		6,024,299
Provision of TCM healthcare services	9,556,745		12,082,390
	14,733,570		18,106,689
Other revenue			
Consultancy fee	-		35,000
Management fee	240,000		440,000
Income for holding healthcare conference	-		20,600
Others	26,629		72,777
	266,629		568,377
Total revenue and other revenue	15,000,199		18,660,712

No single customer was responsible for generating greater than 10% of revenue during the current or proceeding year.

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 2014 and 2013 is set out below:

	For the year ended 31 December 2014		
	Sale of TCM Healthcare and Skincare Products	TCM Healthcare Services	Total
	HK$	*HK$*	*HK$*
Revenue - External sales	5,176,825	9,556,745	14,733,570
Cost of sales	(2,412,288)	(2,416,781)	(4,829,069)
Gross profit	2,764,537	7,139,964	9,904,501
Other revenue	85	266,538	266,623
Distribution costs	(199,220)	-	(199,220)
Administrative expenses	(4,648,774)	(4,615,673)	(9,264,447)
Segment profit/(loss)	(2,083,372)	2,790,951	707,579
General group operating costs (including professional fees and directors remuneration)			(5,341,003)
Operating loss			(4,633,546)
Finance costs			-
Interest income			237
Loss before taxation			(4,633,309)
Taxation			(541,221)
Loss for the year			(5,174,530)

	For the year ended 31 December 2014				
	Sale of TCM Healthcare and Skincare Products		TCM Healthcare Services		Total
	HK$		*HK$*		*HK$*
Additions of					
- Fixed assets	-		41,203		41,203
Amortisation of - intangible assets	233,333		-		233,333
Depreciation of					
- Fixed assets	133,435		28,067		161,502
Segment assets	9,794,114		9,175,699		18,969,813
Segment liabilities	2,418,443		2,881,662		5,300,105
Segment liabilities	2,418,443		2,881,662		5,300,105

	For the year ended 31 December 2013				
	Sale of TCM Healthcare and Skincare Products		TCM Healthcare Services		Total
	HK$		*HK$*		*HK$*
Revenue - External sales	6,024,299		12,082,390		18,106,689
- Cost of sales	(3,253,225)		(3,193,811)		(6,447,036)
Gross profit	2,771,074		8,888,579		11,659,653
Other revenue	14,981		518,395		533,376
Distribution costs	(102,220)		-		(102,220)
Administrative expenses	(4,377,194)		(4,861,459)		(9,237,235)
Segment profit/(loss)	(1,691,941)		4,545,515		2,853,574
General group operating costs (including professional fees and directors remuneration)					(3,724,611)
Operating loss					(871,037)
Finance costs					(8)
Interest income					144
Loss before taxation					(870,901)
Taxation					(128,179)
Loss for the year					(999,080)

	For the year ended 31 December 2013				
	Sale of TCM Healthcare and Skincare Products		**TCM Healthcare Services**		**Total**
	HK$		***HK$***		***HK$***
Additions of					
- Fixed assets	83,492		-		83,492
Amortisation of - intangible assets	233,334		-		233,334
Depreciation of					
- Fixed assets	189,743		121,351		311,094
Segment assets	10,156,571		6,421,997		16,578,568
Segment liabilities	3,975,767		3,234,923		7,210,690

(b) Reconciliation of reportable segment assets and liabilities

	As at 31 December 2014		**As at 31 December 2013**
	HK$		***HK$***
Assets			
Reportable segment assets	18,969,828		16,578,568
Deferred tax assets	125,000		666,221
Unallocated head office and corporate assets	1,904,815		85,322
Consolidated total assets	20,999,643		17,330,111
Liabilities			
Reportable segment liabilities	5,300,105		7,210,690
Current tax payable	685,000		685,000
Unallocated head office and corporate liabilities	264,880		570,057
Consolidated total liabilities	6,249,985		8,465,747

(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. OPERATING LOSS

Operating loss is arrived at after charging/(crediting) the following:

	2014		2013
	HK$		*HK$*
Auditor's remuneration	401,755		567,445
Depreciation of fixed assets	161,502		311,094
Amortisation of intangible assets	233,333		233,334
Operating lease charges: minimum lease payments for properties	2,800,886		3,221,780
Exchange gain, net	668,843		(5,194)

5. FINANCE COSTS

	2014		2013
	HK$		*HK$*
Others	-		8
	-		8

6. TAXATION

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

	2014		2013
	HK$		*HK$*
Deferred tax asset b/f	666,221		678,400
Written down of the deferred tax asset	(541,221)		(12,179)
Deferred tax asset c/f	125,000		666,221

The tax losses amounting to approximately HK$814,162 (2013: HK$4,108,012) were recognised as deferred tax asset in respect to offset future profit streams.

Taxation in the consolidated statement of comprehensive income represents:

	2014	2013
	HK$	*HK$*
Hong Kong corporate income tax		
- Provision for the current year	-	116,000
- Under/(Over)-provision in the previous year	-	14,354
- Deferred tax – relating to tax loss	-	(2,175)
- Write down of the deferred tax assets	541,221	-
	541,221	128,179

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

	2014	2013
	HK$	*HK$*
Loss before taxation	4,596,276	1,193,996
Loss multiplied by standard rate of corporation tax in Hong Kong of 16.5%	758,385	197,009
Effect of:		
Non-deductable expenses	(758,385)	-
Under/(Over-provision) in the previous year	-	14,354
Tax loss derecognised/(recognised) for deferred tax purpose	541,221	(83,184)
	541,221	128,179

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

	2014		**2013**
	HK$		***HK$***
Salaries, wages and other benefits	4,010,914		3,421,980
Contributions to defined contribution plan	128,753		133,018
	4,139,667		3,554,998

8. COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2014		**2013**
	HK$		***HK$***
Salaries and other short-term benefits:			
-Salaries and allowances	2,280,000		2,398,000
-Retirement scheme contribution	27,000		34,500
	2,307,000		2,432,500

The Directors 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 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.

	2014		**2013**
	HK$		***HK$***
Losses attributable to equity holders of parent entity	(4,596,276)		(1,193,996)
Number of shares			

Weighted average number of ordinary shares in issue	63,550,832		62,286,140
Loss per share	0.07		0.02

10. FIXED ASSETS

		Leasehold improvements	Furniture & fixtures	Office equipment	Total
		HK$	*HK$*	*HK$*	*HK$*
Cost At 1 January 2013		216,650	196,335	659,300	1,072,285
Additions		80,000	2,340	1,152	83,492
At 31 December 2013		296,650	198,675	660,452	1,155,777
Accumulated Depreciation At 1 January 2013		87,671	79,600	390,201	557,472
Charge for the year		59,511	34,633	216,950	311,094
At 31 December 2013		147,182	114,233	607,151	868,566
Net book value					
At 31 December 2013		149,468	84,442	53,301	287,211
Cost At 1 January 2014		296,650	198,675	660,452	1,155,777
Additions		-	-	41,203	41,203
At 31 December 2014		296,650	198,675	701,655	1,196,980
Accumulated Depreciation At 1 January 2014		147,182	114,233	607,151	868,566
Charge for the year		59,330	39,735	62,437	161,502
At 31 December 2014		206,512	153,968	669,588	1,030,068
Net book value					
At 31 December 2014		90,138	44,707	32,067	166,912

11. OTHER INTANGIBLE ASSETS

	Patent of Rorrico	Licence of quality management system for TCM clinic	Total
	HK$	*HK$*	*HK$*
Cost			
At 1 January 2013	5,000,000	3,420,000	8,420,000
At 31 December 2013	5,000,000	3,420,000	8,420,000
Accumulated amortisation			
At 1 January 2013	-	1,553,333	1,553,333
Charge for the year	-	233,334	233,334
At 31 December 2013	-	1,786,667	1,786,667
Net book value			
At 31 December 2013	5,000,000	1,633,333	6,633,333
Cost			
At 1 January 2014	5,000,000	3,420,000	8,420,000
At 31 December 2014	5,000,000	3,420,000	8,420,000
Accumulated amortisation			
At 1 January 2014	-	1,786,667	1,786,667
Charge for the year	-	233,333	233,333
At 31 December 2014	-	2,020,000	2,020,000
Net book value			
At 31 December 2014	5,000,000	1,400,000	6,400,000

Rorrico Patent

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 Patent (the "Patent").

The Patent was not amortised during the year ended 31 December 2014 as it remains under development. 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 tested annually for impairment applying a value in use methodology, generally using seven year post-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.

Licence of quality management system for TCM clinic:

TCM procedures represent the licence for the use of the quality management system for clinic operation procedures that is in compliance with the requirements of ISO9001. The scope of the quality management system includes the provision of Chinese medical consultation and treatment, health advisory services, dispensing of prescribed herbal medicines, preparation and packaging of prescribed herbal medicines and brewing services.

The quality management system was amortised for the year ended 31 December 2014. 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 quality management system is tested annually for impairment applying a value in use methodology, generally using seven year post-tax cash flow forecasts with a terminal value calculation and a discount rate of 17%, adjusted where appropriate for country-specific risks. The main assumptions include future revenue growth and projected royalty fee assumed to pay for the system. These assumptions are based on past experience and are reviewed as part of management's 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.

The discounted cash flow review for 2014 showed an expected net present value for future cash flows of HK$2.19 million.

12. GOODWILL

		2014 HK$		2013 HK$
Balance at the beginning of the year		2,846,964		2,846,964
Additions		-		-
Balance at the end of the year		2,846,964		2,846,964

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

The two business segments each comprise a CGU and are included within the Group's goodwill. The recoverable amount of the goodwill is determined on avalue-in use calculations. 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. No impairment would be required if the growth rate were to decrease by 25%.

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

		2014		2013
Gross margin		53-63%		48%
Growth rate Discount rate		10% 17%		20% 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
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

Subsequent to the balance sheet date, the Company has purchased the remaining portion of MiLOC Clinics Limited and MiLOC Clinics Jor2 Limited that it did not previously own. The Group’s shareholding of MiLOC Clinics Limited and MiLOC Clinics Jor2 Limited was changed from 60% to 100% and 36% to 100% respectively.

14. INVENTORIES

The inventories as at 31 December 2014 and 2013 are as follows.

	2014		**2013**
	HK$		***HK$***
Finished goods	1,340,581		1,354,823

The inventories recognized as an expense during the year amounted HK$2,412,288 (2013: HK$3,251,807).

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

	2014		**2013**
	HK$		***HK$***
Other receivables	762,893		744,502
Prepayment	4,122,947		28,000
	4,885,840		772,502

All balances 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 2014 and 2013 were as follow:

	2014		**2013**
	HK$		***HK$***
Amount due from shareholders	-		152,907
Amount due to shareholders	-		72,443
Amount due to directors	2,111,366		2,111,366
	2,111,366		2,183,809

The amount due from the shareholders mainly relates to unpaid share capital.

The amount due to shareholders as at 31 December 2013 relates to cash received from the shareholders to fund various administrative expenditures. This amount was repaid to the shareholders during the year to 31 December 2014.

Apart from the above amount from/to the related companies, significant transactions between the Group and its related parties for the 31 December 2014 and 2013 were as follows:

	2014		**2013**
	HK$		***HK$***
Purchases from Green Health Supplement International Company	584,491		1,765,997

At 31 December 2014, the trade payable to Green Health Supplement International Company is HK$862,209 (2013: HK$2,421,247)

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

The ultimate controlling party of the Group is Megasia International Limited, a company incorporated in the British Virgin Islands.

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2014 and 2013 comprise:

		2014		**2013**
		HK$		***HK$***
Cash at bank and in hand		5,032,168		3,849,707

19. SHARE CAPITAL

		2014		**2013**
		HK$		**HK$**
Authorised,				
100,000,000 ordinary shares of US$0.001 each At the beginning and end of the year		775,000		775,000
Allotted and fully paid: No. of shares: At the beginning and end of the year		62,332,672		61,831,069
Issuance of shares		2,936,370		501,603
At the end of the year		65,269,042		62,332,672
Amount: At the beginning and end of the year		484,950		481,046
Issuance of shares		22,903		3,904
At the end of the year		507,853		484,950

On 21 July 2014, the Company entered into agreements to issue 1,653,801 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$6,289,000. 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 49,614 new ordinary shares of US$0.001 each. The placings and allotment was completed during November 2014.

On 19 and 21 August 2014, the Company entered into a total of five agreements to issue 1,232,955 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$4,582,155. These placings were completed during September 2014.

20. OTHER PAYABLES AND ACCRUALS

	2014	2013
	HK$	*HK$*
Other payables	9	43,389
Receipts in advance	351,467	716,500
Accruals	2,060,404	1,624,447
	2,411,880	2,384,336

21. CASH USED IN OPERATIONS

Reconciliation of loss before taxation to cash used in operations:

	2014	2013
	HK$	*HK$*
Loss before taxation	(4,633,309)	(870,901)
Adjustments:		
Depreciation of fixed assets	161,502	311,094
Amortisation of intangible assets	233,333	233,334
Operating loss before changes in working capital	(4,238,474)	(326,609)
Decrease/(increase) in inventories	14,242	(551,187)
Decrease/(increase) in trade receivables	564,265	(418,549)
(Increase)/decrease in other receivables and prepayments	(4,113,338)	42,592
Decrease/(increase) in amount due from shareholders	152,907	(39,055)
(Decrease)/increase in trade payables	(2,170,863)	1,109,881
Increase/(decrease) in other payables and accruals	27,544	(237,070)
(Decrease)/increase in amount due to shareholders	(72,443)	72,325
Cash used in from operations	(9,836,160)	(347,672)

22. COMMITMENTS UNDER OPERATING LEASES

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

		2014		2013
		HK$		*HK$*
Not later than one year		1,229,133		1,688,360
Later than one year but less than five years		396,952		474,025
		1,626,085		2,162,385

23. 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:

		2014		2013
		HK$		*HK$*
		Loan and receivables		**Loan and receivables**
Financial assets				
Trade receivables		202,178		766,443
Other receivables		158,793		150,002
Amount due from shareholders		-		152,907
Cash and cash equivalents		5,032,168		3,849,707
		5,393,139		4,919,059
		Other financial liabilities		**Other financial liabilities**
Financial liabilities				
Trade payables		1,041,739		3,212,602
Financial liabilities held at amortised cost		9		43,389
		1,041,748		3,255,991

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:

	2014	2013
	HK$	***HK$***
Trade receivables	202,178	766,443
Other receivables	158,793	150,002
Amount due from shareholders	-	152,907
Cash and cash equivalents	5,032,168	3,849,707
	5,393,139	4,919,059

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$50,322 (2013: HK$38,497). 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.

Currency risk management

The Group is exposed to currency risk on financial assets of HK$1,649,626 (2013: HK$1,261) 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$21,149 (2013: US$11,349).

24. 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. The Group currently does not have any external borrowings.

25. SHARE BASED COMPENSATION

Fair value is measured at the grant date and spread over the period during which the recipient becomes unconditionally entitled to payment unless forfeited or surrendered. The fair value of share options granted is measured using the Black-Scholes model, each taking into account the terms and conditions upon which the grants are made. The amount recognised as an expense is adjusted to reflect the best available estimate of the number of options that are expected to become exercisable. None of the Group plans feature any options for cash settlements.

Conditional share options have been granted to one adviser of the company. The exercise price of the granted options is at the listing price of GBP0.33 per share on ISDX. The options are is exercisable by notice to the Company at any time during the five year period commencing on the date of Admission.

	2014		**2013**	
	Number of options	**Average exercise price GBP**	**Number of options**	**Average exercise price GBP**
Outstanding at the beginning of the year				
Granted	72,161	0.33	72,161	0.33
Lapsed	-	-	-	-
Forfeited by option holder	-	-	-	-
Outstanding at the end of the year	**72,161**	**0.33**	**72,161**	**0.33**
Exercisable at the end of the year	72,161	0.33	72,161	0.33

As the Company was admitted to the ISDX Growth Market (formerly PLUS Markets) in December 2010, it is not expected that the outstanding options will vest within one year.

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.

The fair value per share for each grant of options and the assumptions used in the calculation are as follows:

Grant date	**20 December 2010**
Options granted	72,161
Option price – GBP	0.33
Maturity (in years)	2015
Expected term (in years)	5
Expected dividend yield	0%
Expected volatility	58.9%
Risk free interest rate	2.75%
Fair value of the granted option - GBP	**0.17**

During the year ended 31 December 2014 and 2013, there were no share options granted.

26. POST BALANCE SHEET EVENT

Acquisition of 40% shares of MiLOC Clinics Jor2 Limited ("Jor2") and MiLOC Clinics Limited ("MCL")

On 14 January 2015, the Group agreed to acquire, through MCL, the 40% equity interest in Jor2, that it did not already own from Mr Chan Chi Hang and Miss Tung Chau Man (together the "Sellers").

Under the terms of the Deed of Settlement with the Sellers, the Group acquired the 40% equity interest in Jor2 as well as 2,301,004 Class B Shares in MCL held by the Sellers for a total consideration of HK$800,000. Following completion of the share transfers, the Company and Modern TCM (BVI) Limited ("Modern TCM") hold, through MiLOC Clinics (HK) Limited ("MCHK") and MCL, 100% of Jor2. The Group also paid Mr Chan a further HK$800,000 in respect of employment related compensation. The Sellers dismissed their actions against MCHK, MCL, Jor2 and the directors of Jor2.

The Group has reopened the two Jor2 clinics and has recommenced operations.

On 28 January 2015, the Group entered into a Sale and Purchase Agreement with Modern TCM to acquire, through its subsidiary, MiLOC Medical Limited ("MML"), the remaining 40% equity interest in MCL from Modern TCM for cash consideration of HK$100,000. After the acquisition, MCL became fully controlled by the Group as the joint venture between the Group and Modern TCM has ended.

Proposal to move to the Official List

The Group announced on 16 February 2015 that it is exploring a move from ISDX Growth Market and admission to the standard segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities.

Private Placings

On 25 March 2015 the Company entered into an agreement to issue 303,818 new US$0.001 ordinary shares at a placing price of 28.5p per share to raise approximately HK$1,000,000. This placing was completed at the end of March 2015.

The Company entered into the following placing agreements with placing price of 28.5p per share and the placings are expected to complete at the end of May 2015:

> On 30 March 2015, agreed to issue 3,399,074 new US$0.001 ordinary shares to raise approximately HK$11,268,732 and agreed to pay a referral fee of 8 per cent of fundraising amount to an individual third party consultant. Half of the referral fee will be paid in cash and the other half will be satisfied by an allotment and issue of 129,165 new US$0.001 ordinary shares.
>
> On 28 April 2015, agreed to issue 200,000 new US$0.001 ordinary shares to raise approximately HK$673,512.
>
> On 30 April 2015, agreed to issue 3,436,674 new US$0.001 ordinary shares to raise approximately HK$11,788,689 and agreed to pay a referral fee of 8 per cent of fundraising amount to an individual third party consultant. Half of the referral fee will be paid in cash and the other half will be satisfied by an allotment and issue of 130,594 new US$0.001 ordinary shares.
>
> On 7 May 2015, agreed to issue 145,761 new US$0.001 ordinary shares to raise HK$500,000.