MiLOC GROUP LIMITED

DIRECTORS' REPORT AND NON-STATUTORY GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

MiLOC GROUP LIMITED

CORPORATE INFORMATION

DIRECTORS	***Executive directors:*** Professor Chow Ching Fung Ong Ban Poh Michael ***Non-executive directors:*** Ivor Colin Shrago Ow Kian Jing Dennis
COMPANY NUMBER	237076
CORPORATE ADVISOR	Peterhouse Corporate Finance Limited New Liverpool House 15 Eldon Street London EC2M 7LD
COMPANY SECRETARY	The R&H Trust Co. Limited Windward 1 Regatta Office Park P.O. Box 897GT Grand Cayman, Cayman Islands
REGISTERED OFFICE	Windward 1, Regatta Office Park, P.O. Box 897 GT. Grand Cayman, Cayman Islands
AUDITOR	Crowe U.K. LLP 55 Ludgate Hill London EC4M 7JW
BANKERS	Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong
REGISTRARS	Computershare Investor Services PLC The Pavillions Bridgwater Road Bristol BS99, 7NH
SOLICITORS	Stephenson Harwood 18/F United Centre 95 Queensway, Hong Kong

MiLOC GROUP LIMITED

CONTENTS

MiLOC GROUP LIMITED

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

The chairman presents his statement for the year ended 31 December 2020.

Dear Shareholders,

I am pleased to report the results of the Group for the year ended 31 December 2020.

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:

(ii) therapies and consultations through a network of clinics in Hong Kong; and

(iii) the sale and distribution of TCM Fast Moving Consumer Products including healthcare, skincare, haircare and bodycare 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 online stores in Mainland China and Hong Kong.

With the support of various celebrities, the Group continued to invest time and effort on sales and distribution of its TCM Fast-Moving Consumer Goods ("FMCG") which including skin-care, hair-care and body-care products through both online and offline channels.

COVID-19

The outbreak of COVID-19 creates a new and highly unpredictable challenge. We have tested our business continuity plans which have been successfully activated.

The investment in online platforms for selling our products over recent years has resulted in the business being well placed to continue delivering services to our clients without significant disruption and with no increase in operational risk.

The Group has been taking extensive steps to reduce operating costs to the absolute minimum and has brought in new products to the Group – SD Labs products including SDX, SDST and SD Pro, a high performance full protection self-disinfecting coating spray with one spray protects for 90 days or 180 days. SDX is the only and fastest disinfectant that eliminates Covid-19 under 1 minute. The management remain confident that the business can adjust to the challenges it presents.

Financial highlights

Revenue for the year ended 31 December 2020: HK$20,466,164 (2019: HK$15,439,675)
Profit for the year: HK$6,219,723 (Loss for 2019: HK$40,619,447)
The basic profit per share for the year: HK$0.11 (Loss per share for 2019: HK$0.47)
The Group's cash position as at 31 December 2020: HK$234,118 (2019: HK$86,975)

MiLOC GROUP LIMITED

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

Review of significant activities

The Group has, over the last few years, invested considerable time and expense in establishing itself and introducing the concept of TCM, and TCM medical products and healthcare to the wider public. The Board believes that the establishment of TCM products will make a very substantial positive contribution to the Group's revenue in long term.

(i) Private Placings

In 2020, the Company raised approximately HK$1.5 million through private placings. The proceeds of these subscriptions have been applied towards several activities of the Company, including the AKFS Plus range of hair products and SDST self-disinfecting products as mentioned above (Please refer to Note 19 for details of private placings).

(ii) Convertible Bond

On 19 January 2020, the Company entered into an extension agreement for the Convertible Bond. The maturity date extended to 19 July 2021 and the coupon rate adjusted to seven percent (7%) per annum for the period from 20 January 2020 to 19 October 2020 and seven point five percent (7.5%) per annum for the period from 20 October 2020 to 19 July 2021. All other terms remain unchanged.

(iii) Termination of Endorsement Agreement

The Company's wholly owned subsidiary, MiLOC Pharmaceutical (HK) Limited ("MPHK"), has entered into a termination of the endorsement agreement with BrandKing Worldwide Limited and First Strong Workshop Limited for the AKFS+ haircare products which was signed on 1st July 2016. MPHK has also entered into a termination of the commission agreement which was signed with CN Workshop Limited together with the endorsement agreement on 1st July 2016.

Financial review

(i) Revenue, gross profit and other revenue

The Group's revenue for the year ended 31 December 2020 amounted to HK$20,466,164 which represented a 32.5% increase as compared to the year ended 31 December 2019. It included sales of TCM skincare and haircare products that amounted to approximately HK$15,698,000 (2019: approximately HK$8,389,000) and revenue from its clinic operations that amounted to approximately HK$4,768,000 (2019: approximately HK$7,050,000).

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

The sales revenue of TCM skincare and hair care products in 2020 has increased as the Group has spent a long time building up sales channels for our TCM products both in Hong Kong and Mainland China. The revenue from the clinic operations decreased by 32.3% as no health seminars was conducted by one of the consultants from Taiwan during COVID-19 pandemic since the beginning of 2020.

The Group's gross profit and gross profit margin for the year ended 31 December 2020 amounted to HK$6,914,739 and 34 % (2019: HK$5,242,658 and 34%) respectively. The Group's other revenue for the year ended 31 December 2020 amounted to HK$32,519K, an increase of 12,115.5% compared to the year ended 31 December 2019 because of the Government of the Employment Support Scheme for COVID-19 and reversal of provision of accrued commission and royalty fee.

(ii) Operating expenses

The Group's distribution costs for the year ended 31 December 2020 amounted to HK$16,004,562 which decreased by 44.7% as compared to the year ended 31 December 2019. It was due to the termination of the endorsement agreement of AKFS+ and revised the over provision of royalty fee and commission fee. The Group's administrative expenses for the year ended 31 December 2020 were approximately HK$14,248,000 compared to approximately HK$16,422,000 for the year ended 31 December 2019, a decrease of 13.23% as less travelling expenses occurred during the year.

(iii) Profit and profit per share

The Group's profit for the year amounted to HK$6,219,723 (Loss for 2019: HK$40,619,447). As a result, the Group's basic profit per share for the year was HK$0.11 (Loss for 2019: HK$0.47).

The Directors do not recommend the payment of a dividend.

(iv) Balance sheet items

The Group's tangible fixed assets as at 31 December 2020 amounted to HK$365,788 which mainly comprised of leasehold improvements, furniture and fixtures and office equipment. A decrease of approximately HK$297,000 over the balance as at 31 December 2019 mainly due to the depreciation of fixed assets for the year.

The Group's other intangible assets as at 31 December 2020 amounted to HK$3,214,285 which represented a decrease of approximately HK$357,000 compared to approximately HK$3,571,428 as at 31 December 2019 due to an amortisation for the year.

The Group's right-of-use assets and Lease liabilities-right-of-use assets as at 31 December 2020 amounted to HK$2,370,463 and HK$2,679,127 respectively which represented a decrease of approximately HK$3,624,000 and a decrease of approximately HK$711,000 respectively as compared to the year ended 2019. The decrease was due to the depreciation charge for the year.

The Group's inventories as at 31 December 2020 amounted to HK$4,393,462 with a decrease of approximately HK$3,504,000 over the balance as at 31 December 2019.

Inventories mainly consisted of TCM products and healthcare products.

The Group's other receivables and prepayments as at 31 December 2020 amounted to HK$2,111,512 with a decrease of approximately HK$3,000k over the balance as at 31 December 2019 was due to the prepayment to the manufacturers in 2019.

The Group's trade payables as at 31 December 2020 amounted to HK$7,209,000 with a decrease of HK$1,466,000 over the balance as at 31 December 2019.

The Group's cash and cash equivalents increased from HK$86K as at 31 December 2019 to HK$234K as at 31 December 2020. For details of these movements, please refer to the Group's cash flow statement included in the non-statutory group financial statements.

Outlook

It was a challenging year for many companies over the world, the impact of Covid-19 resulted in the temporary closure of our operation in both Mainland China and Hong Kong for a short period of time. Staffs are working from home from time to time.

In the coming year, the Group will continue to maintain income through the following strategy:

a. to provide medical supplies to our customers over the world;
b. to sell SD Labs products including but not limited to SDST and SD Pro that with one spray can inactivate viruses, and kill bacteria and fungi for 90-180 days. We are the exclusive distributor in Hong Kong. We believe this product will make a substantial contribution to our income in the coming years;
c. to continue to focus on promoting and generate more sales from our online distribution of our FMCG products in China.
d. to launch a special design crushing pen
e. to cut down non-profit making products and to minimize operating costs

The outbreak of COVID-19 has changed the commercial world, with the duration and ultimate impact of the virus not yet known. Our objective is the same as previous year, which is to protect our staff and business, and to ensure we are well placed to resume normal operations if further lockdowns are imposed by the Governments of the locations where we operate and potentially capitalise on opportunities when the virus impact subsides.

The Group will continue to make sure that sufficient working capital is maintained.

MiLOC GROUP LIMITED

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

On behalf of the Board of Directors, I would like to thank our management and staff for the great loyalty and dedication they continue to show through these delicate times. I would also like to extend our utmost appreciation to all our partners, shareholders, customers, business associates and suppliers, for their continue support.

Chow Ching Fung
Chairman
31 August 2021

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors present their report and the audited non-statutory group financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2020.

Principal activities and business review

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 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 MiLOC's online store.

The Group's revenue for the year ended 31 December 2020 amounted to HK$20,466K which included sales of TCM amounted to HK$15,698K and revenue from its clinic operation amounted to HK$4,767K. The Group's profit for the year amounted to HK$6,219K. The basic profit per share for the year was HK$0.11. The Group's net cash position as at 31 December 2020 was HK$234K.

Financial highlights

	For the year ended 31 December 2020	For the year ended 31 December 2019
	HK$'000	*HK$'000*
Revenue	20,466	15,439
Gross profit	8,903	5,242
Gross profit margin	43%	34%
Administrative expenses	(14,248)	(16,422)
Profit / (loss) for the year	6,219	(40,619)
Profit / (loss) per share – basic (HK$)	0.11	(0.47)

The Directors do not anticipate any material change in the nature of the group's operations in the foreseeable future.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

Results and dividends

Profit after taxation for the year ended 31 December 2020 amounted to HK$6,219K (Loss for 2019: HK$40,619K).

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

Directors

The Directors who held office during the year were:

Executive directors:

Professor Chow Ching Fung – Chairman

Ong Ban Poh Michael

Non-executive directors:

Ivor Colin Shrago

Ow Dennis Kian Jing

Directors' interests

The Directors who served during the year and their interests in the Company's issued share capital were:

	Number of ordinary shares held as at 31 December 2020	Number of ordinary shares held as at 31 December 2019
Executive directors:		
Professor Chow Ching Fung (note a)	42,224,696	42,224,696
Ong Ban Poh Michael (note a)	42,224,696	42,224,696
Non-executive directors:		
Ivor Colin Shrago	484,584	484,584
Ow Dennis Kian Jing	30,840	30,840

Notes:(a) Professor Chow Ching Fung and Ong Ban Poh Michael own approximately 66.67% and 33.33% respectively of Megasia International Ltd, which owns 42,224,696 shares in MiLOC Group Limited. Accordingly, Professor Chow Ching Fung and Ong Ban Poh Michael are deemed to be interested in all the shares held by Megasia International Ltd totalling 42,224,696.

The Directors hold 49.99% of the issued share capital at 31 December 2020.

Senior management

The senior management who served during the period and their interests in the Company's issued share capital were:

	Number of ordinary shares held as at 31 December 2020	Number of ordinary shares held as at 31 December 2019
Ronnie Choi (CFO)	312,592	312,592
Professor He Zong Seng, senior consultant	1,221,061	1,221,061

Statement of directors' responsibilities

The Directors have elected to prepare the non-statutory group financial statements in accordance with International Financial Reporting Standards ('IFRS'), which includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board ("IASB"). The non-statutory group financial statements are prepared so as to give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing these non-statutory group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the non-statutory group financial statements;
- prepare the non-statutory group financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group. They are also responsible for the system of internal control, safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the MiLOC Group Limited web site is the responsibility of the directors.

Principal risks and uncertainties

The Group's business is subject to regulation and supervision, which govern its operations from the wholesale and retail distribution of TCM to the recruitment and appointment of registered or licensed TCM practitioners and other areas.

The Directors believe the Group currently holds all necessary licences and permits to carry out its business. However, new regulations may be introduced in the future and the Group may fail to adapt to changes in the regulatory environment quickly enough, or in a cost-efficient manner. If the Group fails to comply with applicable laws, the Group may face financial penalties, criminal prosecution, increased compliance costs, public censure and/or a complete or partial curtailment of the Group's authorisation to perform a line of service or its business in its entirety, any of which could have a material adverse impact on the Group's financial condition.

The Group may receive poor quality TCM or healthcare products from its suppliers and may be exposed to product liability claims which may tarnish the Group's brand. A successful product liability claim against the Group could result in legal costs and damages incurred in connection with such claim and costs incurred in connection with a product recall campaign or in rectifying any product defects, any of which could have an adverse effect on the Group's sales and financial condition. The Group does not maintain insurance to cover financial loss which it may sustain as a result of product liability claims.

The production of TCM depends on the supply of Chinese medicinal raw materials of suitable quality. The supply and market prices of these raw materials may be adversely affected by various factors such as weather conditions or sudden increases in demand that would impact the Group's acquisition costs of TCM products. Any substantial fluctuation in supply or the market prices of raw materials may adversely affect the Group's results of operations and profitability.

Financial assets and liabilities

During the year ended 31 December 2020, finance was improved by stricter working capital management in relation to the payment of creditors. By executing the business plan going forward, the Group anticipates that its principal sources of finance will comprise cash in the bank, borrowings and share placings. The main purpose of these is to enhance working capital for the company's operations and to finance the company's operations. Its main liabilities lie in trade payables.

Liquidity risks are managed by maintaining a balance between the continuity of funding and flexibility through the use of loans. The company makes use of money market facilities where funds are available at reasonable cost.

Trade receivables are managed in respect of credit and cash flow risk by policies concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and credit limits.

Trade payables are managed by ensuring that sufficient funds are available to meet amounts due from time to time.

Going concern

At the date of signing these non-statutory group financial statements, the Directors have prepared cash flow projections based on different growth scenarios in the underlying businesses of the Group. Following this review, the non-statutory Group financial statements have been prepared on a going concern basis since the Directors are satisfied that the Group has sufficient resources to continue to develop its business in the foreseeable future. Please see basis of preparation section of note 2 section for more details.

Annual general meeting

The annual general meeting of the Company will be held on 24 September 2021 at 4:00 pm (Hong Kong time).

Substantial shareholders

As at 31 August 2021, the Company has been notified the following beneficial interests of 3% or more in its shares:

Name of shareholder	Number of shares	% of issued share capital and voting rights
Megasia International Limited (note a)	42,224,696	49.39%
Chow King Tung	5,276,622	6.17%
Lim Yi Shenn	3,778,231	4.42%

(a) Professor Chow Ching Fung and Ong Ban Poh Michael own approximately 66.67% and 33.33% respectively of Megasia International Ltd, which owns 42,224,696 shares in MiLOC Group Limited. Accordingly, Professor Chow Ching Fung and Ong Ban Poh Michael are deemed to be interested in all the shares held by Megasia International Ltd totalling 42,224,696.

Provision of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- there is no relevant audit information of which the company and the group's auditor is unaware; and
- each director has taken all the steps that ought to have been taken as a director to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

The Group's non-statutory auditors are Crowe U.K. LLP, and they will be proposed for reappointment to the member at the annual general meeting.

This report was approved by the board on 31 August 2021 and signed on its behalf.

Chow Ching Fung
Director
31 August 2021

MiLOC GROUP LIMITED

GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

Introduction

The UK Corporate Governance Code published by the Financial Reporting Council does not apply to the Company. The Directors recognise the importance of sound corporate governance and have developed governance policies appropriate for the size of the group, with reference to the main provisions of the Corporate Governance Guidelines for Smaller Quoted Companies published by the Quoted Companies Alliance.

The Company is a small company with a modest resource base. The Company has a clear mandate to optimise the allocation of limited resources to support its development plans. As such, the Company strives to maintain a balance between conservation of limited resources and maintaining robust corporate governance practices. As the Company evolves, the Board is committed to enhancing the Company's corporate governance policies and practices deemed appropriate for the size and maturity of the organisation.

Set out below are MiLOC's corporate governance practices for the year ended 31 December 2020.

Leadership

The Company is headed by an effective Board which is collectively responsible for the long-term success of the Company.

The role of the Board - The Board sets the Company's strategy, ensuring that the necessary resources are in place to achieve the agreed strategic priorities, and reviews management and financial performance. It is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. To achieve this, the Board directs and monitors the Company's affairs within a framework of controls which enable risk to be assessed and managed effectively. The Board also has responsibility for setting the Company's core values and standards of business conduct and for ensuring that these, together with the Company's obligations to its stakeholders, are widely understood throughout the Company. The Board has a formal schedule of matters reserved which is provided later in this report.

Board Meetings - The core activities of the Board are carried out in scheduled meetings of the Board and its Committees. These meetings are timed to link to key events in the Company's corporate calendar and regular reviews of the business are conducted. Additional meetings and conference calls are arranged to consider matters which require decisions outside the scheduled meetings. During 2020, the Board met on 12 occasions.

Outside the scheduled meetings of the Board, the Directors maintain frequent contact with each other to discuss any issues of concern they may have relating to the Company or their areas of responsibility, and to keep them fully briefed on the Company's operations.

Matters reserved specifically for Board - The Board has a formal schedule of matters reserved that can only be decided by the Board. The key matters reserved are the consideration and approval of;

- The Company's overall strategy;
- Financial statements and dividend policy;
- Management structure including succession planning, appointments and remuneration (supported by the Nomination Committee);
- Material acquisitions and disposal, material contracts, major capital expenditure projects and budgets;
- Capital structure, debt and equity financing and other matters;
- Risk management and internal controls (supported by the Audit Committee);
- The Company's corporate governance and compliance arrangements;
- Corporate policies;

Certain other matters are delegated to the Board committees, namely the Audit, Remuneration and Nominations Committees.

Attendance at Board meetings;

Member	**Meetings attended**
Chow Ching Fung	12
Michael Ong Ban Poh	12
Dennis Ow Kian Jing	12
Ivor Colin Shrago	12

The Board is pleased with the high level of attendance and participation of Directors at Board and committee meetings.

Non-executive Directors - The non-executive Directors bring a broad range of business and commercial experience to the Company and have a particular responsibility to challenge independently and constructively the performance of the Executive management (where appointed) and to monitor the performance of the management team in the delivery of the agreed objectives and targets.

Non-executive Directors are initially appointed for a term of one year, which may, subject to satisfactory performance and re-election by shareholders, be extended by mutual agreement.

Delegations of authority

Board Committees - The Board has delegated matters to three committees namely Audit, Nomination and Remuneration Committees. The memberships, roles and activities of these committees are detailed in separate reports: the Audit Committee on page 22, the Nomination Committee, included within this report on page 15, the Remuneration Committee on page 17. Each committee reports to the Board and the issues considered at meetings of the committees are provided by the respective committee chairmen. The terms of reference of each committee are to be reviewed by the Board every other year.

Other governance matters - All of the Directors are aware that independent professional advice is available to each Director in order to properly discharge their duties as a Director. In addition, each Director and Board committee has access to the advice of the Company Secretary.

The Company Secretary - The Company Secretary is The R&H Trust Co. Limited which is retained on a consultancy basis. The R&H Trust Co. Limited is available to Directors and responsible for the Board complying with UK procedures.

Effectiveness

The Board recognised that due to MiLOC's current size, there is limited segregation of duties. In this context the Board will be reliant on the Chief Financial Officer (''CFO''), Ronnie Choi, to closely monitor the performance of the Group and to bring to its attention any material issues and transactions.

The Directors review the following management information (the "Management Information") on a monthly basis. This management information comprises:

- detailed income statement including budgeted figures;
- cash and bank balances;
- balance sheet;
- explanatory notes / commentary on major items of income statement, cash flow and balance sheet including debtors ageing analysis;
- variances from budgeted figures; and
- explanatory notes / commentary on major variances from comparing actual performance versus the budget.

Appointments – the Nomination Committee is responsible for reviewing and the structure, size and composition of the Board and making recommendations to the board with regards to any required changes.

Commitments – All Directors have disclosed any significant commitments to the Board and confirmed that they have sufficient time to discharge their duties.

Induction - All new Directors received an induction as soon as practical on joining the Board.

Conflict of interest - A Director has a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the interests of the Company. The Board had satisfied itself that there is no compromise to the independence of those Directors who have appointments on the Boards of, or relationships with, companies outside the Company. The Board requires Directors to declare all appointments and other situations which could result in a possible conflict of interest.

Board performance and evaluation - The Company has a policy of appraising Board performance annually. Having reviewed various approaches to Board appraisal, The Company has concluded that for a company of its current scale, an internal process in which all Board members submit answers to a questionnaire that considers the functionality of the Board and its committees is most appropriate at this stage.

Accountability

The Board is committed to providing shareholders with a clear assessment of the Company's position and prospects. This is achieved through this report and as required other periodic financial and trading statements. The Board has delegated to the Audit committee oversight of the relationship with the Company's auditors as outlined in the Audit committee report on page 22.

Going concern - The Company's business activities, together with factors likely to affect its future operations, financial position, and liquidity position are set out in the Chairman's Statement, Operational Review and the Risks and Uncertainties section of the Annual Report. In addition, note 26 to the consolidated financial statements discloses the Company's financial risk management practices with respect to its capital structure, liquidity risk, interest rate risk, credit risk, and other related matters.

The Directors, having made due and careful enquiry, are of the opinion that the Company has adequate working capital to execute its operations and has the ability to access additional financing, if required, over the next 12 months. The Directors, therefore, have made an informed judgement, at the time of approving financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. As a result, the Directors have continued to adopt the going concern basis of accounting in preparing the annual financial statements in accordance with Going Concern and Liquidity Risk: Guidance for Directors of UK Companies.

Internal controls - The Board of Directors reviews the effectiveness of the Company's system of internal controls. The internal control system is designed to manage the risk of failure to achieve its business objectives. This covers internal financial and operational controls, compliances and risk management. The Company has necessary procedures in place for the year under review and up to the date of approval of the Annual Report and Accounts. The Directors acknowledge their responsibility for the Company's system of internal controls and for reviewing its effectiveness. The Board confirms the need for an ongoing process for identification, evaluation and management of significant risks faced by the Company. A risk assessment for each project is carried out by the Directors before making any commitments

The Audit Committee, will regularly review and report to the Board on the effectiveness of the system of internal control. Given the size of the Company and the relative simplicity of the systems, the Board considers that there is no current requirement for an internal audit function. The procedures that have been established to provide internal financial control are considered appropriate for a company of its size and include controls over expenditure, regular reconciliations and management accounts.

The Directors are responsible for taking such steps as are reasonably available to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Remuneration

The Board has delegated to the Remuneration Committee responsibility for agreeing the remuneration policy for senior executives. The Directors' remuneration report on pages 17 to 21 contains full details of the role and activities of the Remuneration Committee.

Nomination

The nomination committee comprises Ivor Colin Shrago (Chairman) and Dennis Ow Kian Jing.

Committee's Role

The Nomination Committee will review the composition and balance of the Board and senior management on a regular basis to ensure that the Board and senior management have the right structure, skills and experience in place for the effective management of the Company's business and is expected to meet 4 times a year.

Main responsibilities

The main duties of the Nomination Committee are expected to be;

- Review the structure, size and composition of the Board and make recommendations to the Board with regard to any changes;
- Succession planning for Directors and other senior executives;
- Identifying and nominating, for Board approval, candidates to fill Board vacancies as and when required;
- Reviewing annually the time commitment required of non-executive Directors; and
- Making recommendations to the Board regarding membership of the Audit and Remuneration Committee in consultation with the Chairman of each Committee.

Shareholder relations

Communication and dialogue – Open and transparent communication with shareholders is given high priority and there is regular dialogue with institutional investors, as well as general presentations made at the time of the release of the annual and interim results. All Directors are kept aware of changes in major shareholders in the Company and are available to meet with shareholders who have specific interests or concerns. The Company issues its results promptly to individual shareholders and also publishes them on the Company's website: www.miloc.com. Regular updates to record news in relation to the Company are included on the Company's website.

Annual General Meeting - At every AGM individual shareholders are given the opportunity to put questions to the Chairman and to other members of the Board that may be present. Notice of the AGM is sent to shareholders at least 21 working days before the meeting.

Chow Ching Fung
Chairman
31 August 2021

REMUNERATION COMMITTEE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

The Remuneration Committee

The Company's Remuneration Committee comprises of 2 non-executive Directors: Ivor Colin Shrago (Chairman), and Dennis Ow Kian Jing and it met twice during the year to 31 December 2020.

Committee's main responsibilities

- The Remuneration Committee will consider the remuneration policy, employment terms and remuneration of the Directors and review the remuneration of senior management;

- The Remuneration Committee's role is advisory in nature and it will make recommendations to the Board on the overall remuneration packages for Directors and senior management in order to attract, retain and motivate high quality executives capable of achieving the Company's objectives;

- The Remuneration Committee will also review proposals for any share option plans and other incentive plans, make recommendations for the grant of awards under such plans as well as approving the terms of any performance-related pay schemes;

- The Board's policy is to remunerate the Company's executives fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel; and

- The Remuneration Committee, when considering the remuneration packages of MiLOC's executives, will review the policies of comparable Companies in the industry.

Committee advisors

The Company will consult with the Company's major investors and investor representative Companies as appropriate. No Director takes part in any decision directly affecting their remuneration. No remuneration advisors were retained by the Remuneration Committee during the year.

REMUNERATION COMMITTEE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

Statement of MiLOC's policy on Directors' remuneration

The Company's policy is to maintain levels of remuneration so as to attract, motivate, and retain Directors and senior executives of the highest calibre who can contribute their experience to deliver industry leading performance with the Company's operations. The remuneration package for Executive Directors and non-executive Directors comprises of a base salary and pension contributions only.

Remuneration Components

For the year ended 31 December 2020 base salaries and pension contributions were the sole component of remuneration. The board will consider the components of Director remuneration during the year and following this review these are likely to consist of:

- Base salaries
- Pension and other benefits
- Annual bonus
- Share Incentive arrangements

Service Agreements and Letters of Appointment

All of the service contracts with Directors are on an evergreen basis, subject to termination provisions. The Company may in lieu of notice terminate a Directors employment with immediate effect by making a payment which does not exceed a lump sum equal to basic salary and other benefits at the rate prevailing at the date of termination for a period which does not exceed 12 months. As a matter of Company policy, no bonuses shall accrue as a result of a lapse of time in the event of termination. The appointment of Directors is subject to termination upon at least three months' notice.

REMUNERATION COMMITTEE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

Terms of appointment

The services of the Directors, provided under the terms of agreement with the Company dated as follows:

Director	Year of appointment	Number of years completed	Date of current engagement letter
Chow Ching Fung	2010	11	15/03/2010
Michael Ong Ban Poh	2010	11	15/03/2010
Dennis Ow Kian Jing	2010	11	13/06/2013
Ivor Colin Shrago	2010	11	14/12/2010

Consideration of shareholder views

The Remuneration committee considers shareholder feedback received and guidance from shareholder bodies. This feedback, plus any additional feedback received from time to time, is considered as part of the Company's annual policy on remuneration.

Policy for new appointments

Base salary levels will take into account market data for the relevant role, internal relativities, their individual's experience and their current base salary. Where an individual is recruited at below market norms, they may be re-aligned over time (e.g. two to three years), subject to performance in the role. Benefits will generally be in accordance with the approved policy.

For external and internal appointments, the Committee may agree that the company will meet certain relocation and/or incidental expenses as appropriate.

REMUNERATION COMMITTEE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

Set out below are the emoluments of the Directors for the year ended 31 December 2020 (HKD)(audited):

Name of Director	Short term employee benefits	Post employment benefits	Other long term benefits	Termination benefits	Other	Total
Chow Ching Fung	900,000	-	-	-	18,000	918,000
Michael Ong Ban Poh	900,000	-	-	-	-	900,000
Dennis Ow Kian Jing	360,000	-	-	-	-	360,000
Ivor Colin Shrago	360,000	-	-	-	-	360,000

Set out below are the emoluments of the Directors for the year ended 31 December 2019 (HKD) (audited):

Name of Director	Short term employee benefits	Post employment benefits	Other long term benefits	Termination benefits	Other	Total
Chow Ching Fung	1,200,000	-	-	-	18,000	1,218,000
Michael Ong Ban Poh	1,200,000	-	-	-	-	1,200,000
Dennis Ow Kian Jing	360,000	-	-	-	-	360,000
Ivor Colin Shrago	360,000	-	-	-	-	360,000

None of the remuneration paid was subject to performance conditions.

Other remuneration represents payments to Hong Kong Mandatory Provident Fund (MPF).

Other matters

The Company does not currently have any annual or long-term incentive schemes in place for any of the Directors and as such there are no disclosures in this respect.

The Company has not paid out any excess retirement benefits to any Directors or past Directors.

The Company has not paid any compensation to past Directors.

Approved on behalf of the Board of Directors.

Ivor Colin Shrago
Chairman of the Remuneration Committee
31 August 2021

REPORT FROM THE AUDIT COMMITTEE
FOR THE YEAR ENDED 31 DECEMBER 2020

The Audit Committee

The Audit Committee was established during the year and comprises of two Non-Executive Directors and oversees the Company's financial reporting and internal controls, and provides a formal reporting link with the external auditors. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board.

Main Responsibilities

The Audit Committee acts as a preparatory body for discharging the Board's responsibilities in a wide range of financial matters by:

- Monitoring the integrity of the financial statements and formal announcements relating to the Company's financial performance;
- Reviewing significant financial reporting issues and accounting policies and disclosures in financial reports;
- Overseeing that an effective system of internal control and risk management systems are maintained;
- Ensuring that an effective whistle-blowing, anti-fraud and bribery procedures are in place;
- Considering the Company's internal audit requirements and make recommendations to the Board;
- Overseeing the Board's relationship with the external auditors and, where appropriate, the selection of new external auditors;
- Approving non-audit services provided by the external auditors, or any other accounting firm, ensuring the independence and objectivity of the external auditors is safeguarded when appointing them to conduct non-audit services;

Governance

At least one member of the Audit Committee has recent and relevant financial experience. Dennis Ow Kian Jing, who was appointed as Chairman of the Audit Committee has been worked as the Senior Business Manager of Asia Pacific for the London Stock Exchange for over two years. As a result the Board is satisfied that the Audit Committee has recent and relevant financial experience.

The Company's external auditors are Crowe U.K. LLP and the Audit Committee will closely monitor the level of audit and non-audit services they provide to the Company.

REPORT FROM THE AUDIT COMMITTEE FOR THE YEAR ENDED 31 DECEMBER 2020

Meetings

In 2020, the Audit Committee met on 3 occasions.

The key work undertaken by the Audit Committee is as follows;

- Consideration and review of full-year and half-yearly results;
- Audit planning and update on relevant accounting developments;
- Consideration and approval of the risk management framework, appropriateness of key performance indicators;
- Review of the Company's Code of Business Conduct;
- Review the Audit Committee terms of reference;
- Review of the effectiveness of the Audit Committee; and
- Internal controls.

The Audit Committee should have primary responsibility for making a recommendation on the appointment, reappointment or removal of the external auditors. As such a review of external audit effectiveness will take place annually.

External auditor

The Company's external auditors are Crowe U.K. LLP. The external auditors have unrestricted access to the Audit Committee Chairman. The Committee is satisfied that Crowe U.K. LLP has adequate policies and safeguards in place to ensure that auditor objectivity and independence are maintained. The external auditors report to the Audit Committee annually on their independence from the Company. In accordance with professional standards, the partner responsible for the audit is changed every five years. The current auditors, Crowe U.K. LLP were first appointed by the Company in 2011 and therefore the partner has rotated off the engagement after completing the December 2015 audit and a new engagement partner was appointed for the December 2016 audit. Having assessed the performance objectivity and independence of the Auditors, the Committee will be recommending the reappointment of Crowe U.K. LLP as auditors to the company at the 2021 annual general meeting.

Dennis Ow Kian Jing
Chairman of the Audit Committee

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MILOC GROUP LIMITED

Opinion

We have audited the financial statements of MiLOC Group Limited and its subsidiaries (the "Group") for the year ended 31 December 2020, which comprise:

- the Consolidated statement of comprehensive income for the year ended 31 December 2020;
- the Consolidated statement of financial position as at 31 December 2020;
- the Consolidated statement of changes in equity for the year then ended;
- the Consolidated statement of cash flows for the year then ended; and
- the Consolidated notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2020 and of the Group's loss for the period then ended; and
- have been properly prepared in accordance with IFRSs

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 3 in the financial statements, which explains, amongst other matters, that the Group is reliant on trading materially in line with projections and, should it fail to do so, on further support from shareholders, in particular the Directors who have agreed not to recall their loans in a manner that would prejudice the going concern of the Group and who have confirmed their ongoing support to the Group's business activities for the forthcoming twelve months. As stated in note 3, these events or conditions, along with the other matters as set forth in note 3, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included the following:

The going concern assessment period used by the Directors was at least 12 months from the date of the approval of the financial statements. We assessed the appropriateness of the approach, assumptions and arithmetic accuracy of the model used by management when performing their going concern assessment.

We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment. Additionally, we reviewed and challenged the results of management's stress testing, to assess the reasonableness of economic assumptions in light of the impact of Covid-19 on the Group's solvency and liquidity position. Further details of the Directors' assessment of going concern is provided in Note3.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be HK$390,000 (2019: HK$450,000) based on approximately 5% (2019: 3%) of normalized loss before taxation for the year.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of HK$11,700 (2019: HK$13,500). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

We conducted a full scope audit, engaging where appropriate with component auditor in Hong Kong where the group conducts the majority of its operations.

In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken by each of the components. We determined that there are four significant components of the Group, MiLoc Group Limited, as an entity, MiLoc Pharmaceutical (HK) Limited, MiLoc Medical Jor 1 Limited and Star Collaboration (Guangzhou) Limited. MiLoc Group Limited is a Cayman entity with no statutory audit requirement, transactions are limited to administrative and professional fees, these were provided by management to us and we performed audit procedures accordingly. The other components are based in Hong Kong and we engaged with the component auditor to direct the audit process for MiLoc Pharmaceutical (HK) Limited, MiLoc Medical Jor 1 Limited and Star Collaboration (Guangzhou) Limited. Following discussions held at the planning stage, we issued instructions to the component auditor that detailed the significant risks to be addressed through the audit procedures and indicated the information we required to be reported, we reviewed their working papers and discussed key findings. This, together with the audit procedures performed by ourselves at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We set out below, together with going concern which is included above in the section *Material uncertainty related to going concern*, those matters we identified as key audit matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How the scope of our audit addressed the key audit matter***
Carrying value of intangible assets The carrying value of the Rorrico asset at 31 December 2020 was HK$3.2 million. There is a risk that the Group may not be able to exploit the value of this asset which could mean the value of the asset is impaired. There are significant accounting judgements and estimates in relation to the carrying value of this asset which management has disclosed in note 12 to the financial statements. The key judgements are: • That the value is dependent on the occurrence of an outbreak of Swine flu • That in the event of an outbreak of Swine flu, the Group is able to effectively market and distribute products based on the patent. The timing of the above matters and the subsequent execution and exploitation of the patent is inherently uncertain. Changes in these factors could result in a material impairment to the carrying value of the patent.	The Rorrico asset is carried at amortized cost. We held discussions with management to understand whether there were indicators of impairment. We also reviewed management's assessment of the recoverable amount of the patent. This included an assessment of the patent ownership, consideration of the appropriateness and methodology of the value in use calculation, the assumptions and judgements applied and management's evaluation of the sensitivity of these assumptions. We reviewed management's benchmarking of carrying values of comparable Chinese traditional medicinal and food supplement products and challenged the key assumptions used to determine the recoverable amount, particularly in respect of discount rate, growth rate and expected sales volumes.

Key audit matter	How our audit addressed the matter
Revenue recognition The Group recognised revenue from the sale of products and the provision of medical consulting services. Revenue may be inappropriately recognised.	We reviewed the accounting policy and considered whether it is appropriate. We carried out audit procedures to test each revenue stream and that the accounting policy was appropriately applied.
Inventory valuation As disclosed in note 14 the Group holds inventory and its policy is to hold inventory at the lower of cost and net realisable value. Inventory may not be stated at the lower of cost and net realisable value.	We undertook procedures on a sample basis to (i) test the net realisable value of inventory to recent selling prices. (ii) agree cost to recent purchase invoices. (iii) make enquiries of management to determine whether any specific write downs were required having regard to the ageing of inventory.

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory frameworks within which the company operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were the regulations on protection of traditional Chinese medicines in China and Hong Kong, the Cayman Islands Companies Law, relevant taxation legislation in the jurisdictions in which the Company's principal operating subsidiaries are located.

We identified the greatest risk of material impact on the financial statements from irregularities, including fraud, to be the override of controls by management, valuation of intangible assets, inventory valuation and revenue recognition. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting and basis of journals and reviewing accounting estimates for biases.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with the terms of our engagement letter. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Bullock (Senior Statutory Auditor)
for and on behalf of
Crowe U.K. LLP
Statutory Auditor
London
31 August 2021

MiLOC Group Limited
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2020

	Notes	2020	2019
From continuing operations		*HK$*	*HK$*
Revenue	*4*	20,466,164	15,439,675
Cost of sales		(11,562,972)	(10,197,017)
Impairment loss on inventory		(1,988,453)	-
Gross profit		6,914,739	5,242,658
Other revenue	*4*	32,519,220	266,213
Distribution costs		(16,004,562)	(28,952,543)
Administrative expenses		(14,248,318)	(16,422,397)
Foreign exchange gain / (loss), net		(159,439)	(36,735)
Adjusted operating profit / (loss)	*5*	9,021,640	(39,902,804)
Impairment loss for intangible asset and goodwill		-	(46,127)
Impairment loss on trade receivable		(2,382,672)	-
Operating profit / (loss)		6,638,968	(39,948,931)
Loss on disposal of subsidiaries		-	(54,908)
Finance costs	*6*	(419,559)	(617,745)
Interest income		314	2,137
Profit / (loss) before taxation		6,219,723	(40,619,447)
Taxation	*7*	-	-
Profit / (loss) for the year		6,219,723	(40,619,447)
Other comprehensive income / (loss)			
Exchange differences arising from translation		(453,717)	20,060
Total comprehensive result for the year		**5,766,006**	**(40,599,387)**
Profit / (loss) for the year attributable to:			
The equity holders of the parent entity		9,176,764	(37,707,213)
Non-controlling interests		(2,957,041)	(2,912,234)
		6,219,723	(40,619,447)
Total comprehensive profit / (loss) for the year attributable to:			
The equity holders of the parent entity		8,723,047	(37,687,153)
Non-controlling interests		(2,957,041)	(2,912,234)
		5,766,006	(40,599,387)
Profit / (loss) per share – from continuing operations (HK$)			
Basic	*10*	0.11	(0.47)

The accompanying accounting policies and notes numbered 1 to 27 form an integral part of these non-statutory group financial statements.

MiLOC Group Limited
Consolidated Statement of Financial Position
As of 31 December 2020

	Notes	**As at 31 December 2020** *HK$*	**As at 31 December 2019** *HK$*
Assets			
Non-current assets			
Fixed assets	*11*	365,788	662,786
Other intangible assets	*12*	3,214,285	3,571,428
Right-of-use assets	*23*	2,370,463	5,994,333
		5,950,536	10,228,547
Current assets			
Inventories	*14*	4,393,462	7,897,946
Trade receivables	*15*	376,798	674,640
Other receivables and prepayments	*16*	2,111,512	5,111,688
Cash and cash equivalents	*18*	234,118	86,975
		7,115,890	13,771,249
Total assets		**13,066,426**	**23,999,796**
Equity and liabilities			
Equity			
Share capital	*19*	656,981	652,935
Share premium		92,908,360	91,398,425
Retained earnings		(131,486,449)	(140,209,496)
Equity attributable to the parent entity		(37,921,108)	(48,158,136)
Non-controlling interests		3,949,815	6,906,816
Total equity		(33,971,293)	(41,251,320)
Liabilities			
Current liabilities			
Trade payables		7,209,544	8,675,949
Other payables and accruals	*20*	28,365,680	43,113,698
Amounts due to directors	*17*	3444,748	2,101,056
Lease liabilities	*23*	2,679,127	3,390,381
Borrowings	*21*	5,338,620	5,452,172
		47,037,719	62,733,256
Non-current liabilities			
Lease liabilities	*23*	-	2,517,860
Total liabilities		47,037,719	65,251,116
Total equity and liabilities		**13,066,426**	**23,999,796**

Approved by the Board of Directors on 31 August 2021

Signed on behalf of the Directors

Chow Ching Fung
Director

The accompanying accounting policies and notes numbered 1 to 27 form an integral part of these non-statutory group financial statements.

MiLOC Group Limited
Consolidated Statement of Changes in Equity
For the year ended 31 December 2020

	Notes	Share capital *HK$*	Share premium *HK$*	Retained earnings *HK$*	Total *HK$*	Non-controlling interests *HK$*	Total Equity HK$
At 1 January 2019		**598,333**	**71,417,033**	**(102,618,307)**	**(30,602,941)**	**9,819,050**	**(20,783,891)**
Comprehensive Income and Total Comprehensive Income							
IFRS 16 adjustment				41,056	41,056		41,056
Disposal of subsidiaries		-	-	54,908	54,908	-	54,908
Loss for the year		-	-	(37,707,213)	(37,707,213)	(2,912,234)	(40,619,447)
Exchange differences arising from translation				20,060	20,060		20,060
Transactions with owners							
Issuance of shares		54,602	19,981,392	-	20,035,994	-	20,035,994
At 31 December 2019 and 1 January 2020		**652,935**	**91,398,425**	**(140,209,496)**	**(48,158,136)**	**6,906,816**	**(41,251,320)**
Comprehensive Income and Total Comprehensive Income							
Loss for the year		-	-	9,176,764	9,176,764	(2,957,041)	6,219,723
Exchange differences arising from translation		-	-	(453,717)	(453,717)	-	(453,717)
Transactions with owners							
Issuance of shares		4,046	1,509,935	-	1,513,981	-	1,513,981
Incorporation of a subsidiary with third party		-	-	-	-	40	40
At 31 December 2020		**656,981**	**92,908,360**	**(131,486,449)**	**(37,921,108)**	**3,949,815**	**(33,971,293)**

The share premium reserve represents the consideration that has been received in excess of the nominal value of shares on issue of ordinary share capital, net of issue costs.

The accompanying accounting policies and notes numbered 1 to 27 form an integral part of these non-statutory group financial statements.

MiLOC Group Limited
Consolidated Statement of Cash Flows
For the year ended 31 December 2020

	Notes	**2020**	**2019**
		HK$	*HK$*
OPERATING ACTIVITIES			
Cash used in operations	*22*	2,448,816	(18,102,545)
INVESTING ACTIVITIES			
Purchase of fixed assets		(42,735)	(129,618)
Interest received		314	2,137
Net cash used in investing activities		(42,421)	(127,481)
FINANCING ACTIVITIES			
Issuance of shares		1,513,981	20,035,994
Proceed received for incorporation of a subsidiary		40	-
Repayment on leases		(3,358,585)	(4,154,957)
Interest paid		(403,640)	(365,040)
Net cash generated from financing activities		(2,248,204)	15,515,997
Net increase in cash and cash equivalents		158,191	(2,714,029)
Cash and cash equivalents at beginning of year		**86,975**	**2,754,507**
Effects of currency translation on cash and cash equivalents		**(11,048)**	**46,497**
Cash and cash equivalents at end of year		**234,118**	**86,975**

The accompanying accounting policies and notes numbered 1 to 27 form an integral part of these non-statutory group financial statements.

1. CORPORATE INFORMATION

MiLOC Group Limited (the 'Company') was incorporated in the Cayman Islands on 10 February 2010. Its registered office is The R&H Trust Co., Limited, One Capital Place, George Town, P.O. Box 897, Cayman Islands. 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 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 MiLOC's online store.

The annual financial statement for the members were approved by the Board of Directors and authorised for issue on 30 August 2021 and are authorised to be signed on its behalf.

The financial information contained in the annual financial statements for the members is presented in Hong Kong Dollars ("HK$") and it is the functional currency of the Company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards ('IFRS'), which includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board ("IASB"), and on the historical cost convention, unless otherwise indicated in this summary of significant accounting policies. The accounts of the parent company are not presented as part of these non-statutory group financial statements.

Standards and interpretations adopted during the year

Information on new standards, amendments and interpretations that are relevant to the Group's annual report and accounts is provided below.

- Definition of Material (Amendments to IAS 1 and IAS 8);
- Definition of a Business (Amendments to IFRS 3); and
- Interest Rate Benchmark Reform (IBOR) reform Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7).

These standards have no material impact on the Group.

Standards, amendments and interpretations that are not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

The Group is currently assessing the impact of these new accounting standards and amendments.

3. PRINCIPAL ACCOUNTING POLICIES

The financial information has been prepared on the going concern basis of accounting which assumes adequate financial resources will be available to the Group for a period of at least twelve months from the date of approval of the non-statutory Group financial statements. In support of this assumption, the Directors have prepared detailed budgets and cash flow projections based on continuing operations and the Group's currently available cash and cash projected to be generated from its operations. Those budgets and cash flow projections include future estimated results from the 2020 expansion of the Group's hospital and clinic network and the progress and sale of the Group's TCM and health products, and have been reviewed and approved by the Board of Directors.

The ability of the Group to continue as a going concern for the foreseeable future is dependent on the ability of the Group to trade materially in line with its projections including the continuing trade under the Taiwan distribution agreement and the new AKFS product range. In the event that the Group is unable to trade materially in line with its financial projections, further support would be sought from key shareholders, in particular the Directors who have agreed not to recall their loans in a manner that would prejudice the going concern of the Group and who have confirmed their ongoing support to the Group's business activities for the forthcoming twelve months from signing these non-statutory Group financial statements, there is a proven track record of the ability of the group to raise additional finance. A material uncertainty exists regarding the ability of the group to remain a going concern without the continued financial support from key shareholders and the ability to raise additional finance through the placing of shares.

Consolidation and business combinations

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020. The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Financial assets

The Group classifies its financial assets into the categories discussed below, depending on the purpose for which the asset was acquired. The Group only has financial assets classified as held at amortised cost. The financial assets comprise of trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held with banks, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position, unless there is a right of set-off between bank accounts across the Group. In this instance, the net cash position will be shown.

These assets arise principally from the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. Trade receivables are recognised initially at the transaction price and other financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue. They are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a historical provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within administration costs in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those for which credit risk has increased significantly, lifetime expected credit losses are recognised, unless further information becomes available contrary to the increased credit risk. For those that are determined to be permanently credit impaired, lifetime expected credit losses are recognised.

Financial liabilities

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

(ii) *Financial liabilities and equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRS.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such as an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

(iii) *Equity instruments*

Equity instruments issued by the Group are recorded at the proceeds received, net of share issue costs.

Impairment

(i) *Financial assets*

The Group always recognises lifetime expected credit losses ("ECL") for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast conditions at the reporting date, including time value of money where appropriate.
For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For assets that have indefinite lives, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that has been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Intangible assets separately acquired or acquired as part of a business combination are amortised over their estimated useful lives, using the straight-line basis, from the time they are available for use. The estimated useful lives for determining the amortisation charge take into account patent lives, where applicable, as well as the value obtained from periods of non exclusivity. Asset lives are reviewed, and where appropriate adjusted, annually. Contingent milestone payments are recognised at the point that the contingent event becomes certain. Any development costs incurred by the Group and associated with acquired patents are written off to the income statement when incurred, unless the criteria for recognition of an internally generated intangible asset are met.

Where intangible assets are acquired by the Group from third parties the costs of acquisition are capitalised. Patents acquired with businesses are capitalised independently where they are separable and have an expected life of more than one year. Intangible assets are amortised on a straight-line basis over their estimated useful lives, not exceeding 20 years, except where the end of the useful economic life cannot be foreseen. Where intangible assets are not amortised, they are subject to annual impairment tests. Both 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 judgemental. 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.

Intangible assets in respect of the licence of the quality management system are amortised over their useful lives which is assessed to be 10 years.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Cost includes the purchase price of the asset and any directly attributable costs for bringing the asset to its working condition for its intended use. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Leasehold improvements	3 years
Furniture and fixtures	5 years
Office equipment	5 years
Motor vehicles	5 years

Where components of an asset have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an item of property, plant and equipment and its residual value, if any, are reviewed annually.

Taxation

(i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

In respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

In respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in profit or loss.

Cash equivalents

For the purpose of the cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost method and comprises all costs of purchase, costs of production or conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised costs less allowance for impairment of doubtful debts, except for where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Revenue recognition

The Group operates a number of diverse businesses and accordingly applies a variety of methods for revenue recognition, based on the principles set out in IFRS 15. The revenue and profits recognised in any reporting period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer. In determining the amount of revenue and profits to record, and associated statement of financial position items (such as trade receivables and contract liabilities), management is required to review performance obligations within individual contracts.

Revenue is recognised either when the performance obligation in the contract has been performed (so 'point in time' recognition) or 'over time' as control of the performance obligation is transferred to the customer. For all contracts, the Group determines if the arrangement with a customer creates enforceable rights and obligations, which is in line with our contractual commitments
.
For each performance obligation to be recognised over time, the Group applies a revenue recognition method that faithfully depicts the Group's performance in transferring control of the goods or services to the customer. This decision requires assessment of the real nature of the goods or services that the Group has promised to transfer to the customer. The Group has assessed the period of time principles as follows:

- The customer becomes committed to pay the Group the moment that the goods are despatched and collected.
- The customer accepts that they are liable to pay for the transaction in full although it is the Group's responsibility to ensure that the shipment is in transit before invoicing.
- The customer can usually be invoiced on despatch/export and has an obligation to pay for services despite any problems that may arise in transit.
- The Group would hold any third party liable for any issues that happen in transit that is beyond its reasonable control.

Research and development costs

Research expenditure is recognised in the profit or loss account in the period which it is incurred.

Development expenditure is recognised in the profit or loss account in the period which it is incurred unless it meets the recognition criteria of IAS38 “Intangible Assets”. Regulatory and other uncertainties generally mean that such criteria are not met. Where, however, the recognition criteria are met, intangible assets are capitalised and amortised on a straight-line basis over their useful economic lives from product launch.

Leases

IFRS 16 has introduced a single, on-balance sheet accounting model for lessees, eliminating the distinction between operating and finance leases. IFRS 16 has impacted how the Group accounts for leases under IAS 17.

The Group assesses at inception whether the contract is, or contains, a lease. A lease exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assessment includes whether:

- the contract involves the use of an identified asset;
- the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the contract period; and
- the Group has the right to direct the use of the asset.

At the commencement of a lease, the Group recognises a right-of-use asset along with a corresponding lease liability.

The lease liability is initially measured at the present value of the remaining lease payments, discounted using the individual entities incremental borrowing rate. The lease term comprises the non-cancellable period of the contract, together with periods covered by an option to extend the lease where the Group is reasonably certain to exercise that option based on operational needs and contractual terms. Subsequently, the lease liability is measured at amortised cost by increasing the carrying amount to reflect interest on the lease liability, and reducing it by the lease payments made. The lease liability is remeasured when the Group changes its assessment of whether it will exercise an extension or termination option.

Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, lease incentives received and initial direct costs. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and are adjusted for certain remeasurements of the lease liability.

The incremental borrowing rate is calculated on a lease by lease basis. The weighted average lessee’s borrowing rate applied to the lease liabilities is 2.75% (2019: 2.75%)

Depreciation is calculated on a straight-line basis over the length of the lease. The Group has elected to apply exemptions for short-term leases and leases for which the underlying asset is of low value. For these leases, payments are charged to the income statement on a straight-line basis over the term of the relevant lease. Right-of-use assets are presented within non-current assets on the face of the balance sheet, and lease liabilities are shown separately on the statement of financial position in current liabilities and non-current liabilities depending on the maturity of the lease payments.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This has replaced the previous requirements to recognise a provision for onerous lease contracts.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in the profit or loss. Short term leases are leases with a lease term of 12 months or less.

Foreign currency translation

The Group's consolidated financial statements are presented in Hong Kong dollars, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(ii) Group companies

The functional currencies of all subsidiaries are Hong Kong dollars except for the subsidiary located in China which with Renminbi as their functional currencies.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided regularly to the Group's senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business. The Board of Directors are responsible for allocating resources and assessing the performance of the operating segments and makes strategic decisions for the Group.

Critical accounting estimates and judgment

Estimates and judgement are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgement and other uncertainties affecting the application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the non-statutory group financial statements. The principal accounting policies are set out earlier in this note. Other than the assumptions relating to impairment test on goodwill, intangibles and inventory provisions, the Group believes the following critical accounting policies involve the most significant judgement and estimates used in the preparation of the non-statutory group financial statements.

Trade receivables

In accordance with IFRS 9, the Group assesses whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument both due within one year and more than one year as at the reporting date with the risk of a default occurring on the trade receivable as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The Group has trade receivables less provision for expected credit losses at the year-end of HK$376,798 (2019: HK$674,640)

4. 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:

	2020	2019
	HK$	*HK$*
Revenue		
Sales of TCM and healthcare and skincare products	15,698,491	8,389,440
Provision of TCM healthcare services	4,767,673	7,050,235
	20,466,164	15,439,675
Other revenue		
Management fee	240,000	245,467
Others	512,309	20,746
Reverse the provision of accrued royalty fee	31,766,911	-
	32,519,220	266,213
Total revenue and other revenue	52,985,384	15,705,888

22.59% of revenue (2019: Nil) generated from a China 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 and China.

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 2020 and 2019 is set out below:

	For the year ended 31 December 2020		
	Sale of TCM Healthcare and Skincare Products	**TCM Healthcare Services**	**Total**
	HK$	*HK$*	*HK$*
Revenue - External sales	15,698,491	4,767,673	20,466,164
Cost of sales	(9,752,957)	(1,810,015)	(11,562,972)
Impairment of inventory	(1,988,453)	-	(1,988,453)
Gross profit	3,957,081	2,957,658	6,914,739
Other revenue	32,163,286	355,934	32,519,220
Distribution costs	(15,938,548)	(66,014)	(16,004,562)
Administrative expenses	(8,102,734)	(2,677,320)	(10,780,054)
Segment profit/(loss)	12,079,085	570,258	12,649,343
General group operating costs (including professional fees and directors remuneration)			(3,627,703)
Operating loss			9,021,640
Impairment loss on trade receivable			(2,382,672)
Finance costs			(419,559)
Interest income			314
Loss before taxation			6,219,723
Taxation			-
Loss for the year			6,219,723

	For the year ended 31 December 2020		
	Sale of TCM Healthcare and Skincare Products	**TCM Healthcare Services**	**Total**
	HK$	*HK$*	*HK$*
Additions of			
- Fixed assets	-	42,735	42,735
Depreciation of			
- Fixed assets	314,036	44,022	358,058
Segment assets	10,456,024	2,608,318	13,064,342
Segment liabilities	27,684,751	10,658,689	38,343,440

	For the year ended 31 December 2019		
	Sale of TCM Healthcare and Skincare Products	**TCM Healthcare Services**	**Total**
	HK$	*HK$*	*HK$*
Revenue - External sales	8,389,440	7,050,235	15,439,675
Cost of sales	(6,849,328)	(3,347,689)	(10,197,017)
Gross profit	1,540,112	3,702,546	5,242,658
Other revenue	12,055	254,158	266,213
Distribution costs	(28,617,617)	(334,926)	(28,952,543)
Administrative expenses	(9,080,295)	(2,886,385)	(11,966,680)
Segment profit/(loss)	(36,145,745)	735,393	(35,410,352)
General group operating costs (including professional fees and directors remuneration)			(4,492,452)
Operating loss			(39,902,804)
Impairment loss for goodwill			(46,127)
Loss on disposal of subsidiaries			(54,908)
Finance costs			(617,745)
Interest income			2,137
Loss before taxation			(40,619,447)
Taxation			-
Loss for the year			(40,619,447)

	For the year ended 31 December 2019		
	Sale of TCM Healthcare and Skincare Products	**TCM Healthcare Services**	**Total**
	HK$	*HK$*	*HK$*
Additions of			
- Fixed assets	129,618	-	129,618
Depreciation of			
- Fixed assets	306,050	35,580	341,630
Segment assets	20,066,973	3,929,561	23,996,534
Segment liabilities	48,921,412	10,116,103	59,037,515

(b) Reconciliation of reportable segment assets and liabilities

	As at 31 December 2020	**As at 31 December 2019**
	HK$	*HK$*
Assets		
Reportable segment assets	13,064,342	23,996,534
Unallocated head office and corporate assets	2,084	3,262
Consolidated total assets	13,066,426	23,999,796
Liabilities		
Reportable segment liabilities	38,343,440	59,037,515
Unallocated head office and corporate liabilities.	8,694,279	6,213,601
Consolidated total liabilities	47,037,719	65,251,116

(c) Revenue analysis by country

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

	2020	**2019**
Hong Kong	11,092,019	10,806,097
Mainland China	9,374,145	4,633,578
The People's Republic of China	20,466,164	15,439,675

5. ADJUSTED OPERATING PROFIT / (LOSS)

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

	2020	**2019**
	HK$	*HK$*
Auditor's remuneration	324,951	289,230
Cost of inventories expensed	9,261,000	5,997,787
Depreciation of fixed assets	358,058	341,630
Depreciation – right-of-use assets (note 24)	3,623,871	3,868,066
Impairment loss on inventory	1,988,453	-
Inventories written down	491,958	888,292
Royalty expenses	6,911,098	20,228,539
Exchange (gain) / loss, net	159,441	36,737

6. FINANCE COSTS

	2020	**2019**
	HK$	*HK$*
Interest	(290,088)	(375,890)
Lease interest expenses	(129,471)	(241,855)
	(419,559)	(617,745)

The interest is generated from borrowings stated in Note 22.

7. TAXATION

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

	2020	**2019**
	HK$	***HK$***
(Profit) / Loss before taxation	(6,219,723)	40,619,447
Loss multiplied by standard rate of corporation tax in Hong Kong of 16.5%	1,026,254	(6,702,208)
Effect of:		
Items not deductible for tax purposes	81,280	187,984
Items deductible for tax purposes	(85,244)	(17,598)
Losses carried forward	1,192,778	6,872,594
	-	-

The amount of losses that are available but in respect of which no deferred tax asset has been recognised amounted to HK$83,898,398 (2019: HK$98,788,789). No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

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

	2020	**2019**
	HK$	***HK$***
Salaries, wages and other benefits	4,483,739	4,520,167
Contributions to defined contribution plan	239,486	417,245
	4,723,225	4,937,412

9. COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2020	**2019**
	HK$	***HK$***
Salaries and other short-term benefits:		
-Salaries and allowances	2,760,000	3,360,000
-Retirement scheme contribution	30,000	30,000
	2,790,000	3,390,000

The Directors of the Company 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 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.

10. EARNINGS 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.

	2020	2019
	HK$	*HK$*
Profit / (losses) attributable to equity holders of parent entity	9,176,764	(37,707,213)
Number of shares		
Weighted average number of ordinary shares in issue	84,183,283	79,569,531
Profit / (loss) per share	0.11	(0.47)

11. FIXED ASSETS

	Leasehold improvements	Furniture & fixtures	Office equipment	Total
	HK$	*HK$*	*HK$*	*HK$*
Cost				
At 1 January 2019	2,785,407	183,109	721,763	3,690,279
Reallocation	-	(100,622)	100,622	-
Change in exchange difference	(8,790)	-	(5,574)	(14,364)
Additions	103,003	-	26,615	129,618
At 31 December 2019	2,879,620	82,487	843,426	3,805,533
Accumulated Depreciation				
At 1 January 2019	2,348,772	74,703	383,554	2,807,029
Reallocation	-	(435)	435	-
Change in exchange difference	(3,891)	-	(2,021)	(5,912)
Charge for the year	189,445	3,870	148,315	341,630
At 31 December 2019	2,534,326	78,138	530,283	3,142,747
Net book value				
At 31 December 2019	345,294	4,349	313,143	662,786

	Leasehold improvements	Furniture & fixtures	Office equipment	Total
Cost				
At 1 January 2020	2,879,620	82,487	843,426	3,805,533
Change in exchange difference	35,982	-	20,380	56,362
Additions	-	1,200	41,535	42,735
At 31 December 2020	2,915,602	83,687	905,341	3,904,630
Accumulated Depreciation				
At 1 January 2020	2,534,326	78,138	530,283	3,142,747
Change in exchange difference	25,287	-	12,750	38,037
Charge for the year	195,190	4,109	158,759	358,058
At 31 December 2020	2,754,803	82,247	701,792	3,538,842
Net book value				
At 31 December 2020	160,799	1,440	203,549	365,788

12. OTHER INTANGIBLE ASSETS

	Patent of Rorrico	**Total**
	HK$	***HK$***
Cost		
At 1 January 2019	5,000,000	5,000,000
At 31 December 2019	5,000,000	5,000,000
Accumulated amortisation		
At 1 January 2019	1,071,429	1,071,429
Amortisation for the year	357,143	357,143
At 31 December 2019	1,428,572	1,428,572
Net book value		
At 31 December 2019	3,571,428	3,571,428
Cost		
At 1 January 2020	5,000,000	5,000,000
At 31 December 2020	5,000,000	5,000,000
Accumulated amortisation		
At 1 January 2020	1,428,572	1,428,572
Amortisation for the year	357,143	357,143
At 31 December 2020	1,785,715	1,785,715
Net book value		
At 31 December 2020	3,214,285	3,214,285

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 Patent (the "Patent").

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 began 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 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.

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 Store Limited	18 October 2010, HK	100%	Golden Ace Holdings Limited	Retailing and wholesaling of health and related products

Star Collaboration (Guangzhou) Limited	28 April, 2018, PRC	57%	N/A	Retailing and wholesaling of haircare products
Miloc Pharmaceutical (Guanggzhou) Limited	26 June, 2019, PRC	57%	N/A	Retailing and wholesaling of haircare products
JC PLUS Limited	8 August 2019, HK	60%	NA	Retailing and wholesaling of lotus root drinks
Non-cash generating unit:				
Smart Falcon Limited	3 December 2009, BVI	100%	He Yu and Professor He Zhong Sheng	Holding company of the intellectual property rights, including the Rorrico patent
MiLOC Pharmaceutical (Macau) Limited	9 June 2011, Macau	100%	N/A	Retailing, wholesaling, import and export of TCM products
Richmond Group Limited	18 January 2018, HK	57%	ONG, Ban Poh Michael	Investment holding company

Details of the Group's subsidiaries that have material non-controlling interests are set out below:-

	2020	**2019**
Percentage of ownership interest held by non-controlling interests:		
Richmond Group Limited	43%	43%
Star Collaboration (Guangzhou) Limited	43%	43%
JC Plus Limited	40%	40%

	2020	**2019**
	HK$	***HK$***
Loss for the year allocated to non-controlling interests:		
Richmond Group Limited	1,477,815	88,491
Star Collaboration (Guangzhou) Limited	2,856,067	2,823,743
JC Plus Limited	17,008	-

The following tables illustrate the summarized consolidated financial information of the above subsidiaries. The amounts disclosed are before any inter-company elimination:

	Richmond Group Limited	Star Collaboration (Guangzhou) Limited	JC Plus Limited
	2020	**2020**	**2020**
	HK$	***HK$***	***HK$***
Revenue	-	7,636,619	-
Total expenses	195,269	11,402,227	45,521
Loss for the year	3,241,509	6,188,298	45,521
Current assets	25,700	4,797,095	100
Non-current assets	7,563,521	280,085	-
Current liabilities	617,469	8,566,858	42,521
Non-current liabilities	-	-	-
Net cash flow from / (used in) operating activities	271,731	(216,245)	(71)
Net cash flow from / (used in) investing activities	(280,000)	-	-
Net cash flow from / (used in) financing activities	-	31,577	-
Net decrease in cash and cash equivalents	(8,269)	(184,668)	(71)

14. INVENTORIES

The inventories as at 31 December 2020 and 2019 are as follows.

	2020	2019
	HK$	*HK$*
Finished goods	4,393,462	7,897,946
Provision for the year	-	-
	4,393,462	7,897,946

15. TRADE RECEIVABLES

	2020	2019
	HK$	*HK$*
Trade receivable	2,759,470	674,640
Less: provision for impairment of trade receivables	(2,382,672)	-
	376,798	674,640

16. OTHER RECEIVABLES AND PREPAYMENT

	2020	2019
	HK$	*HK$*
Deposits paid	705,799	745,599
Other receivables	1,368,840	1,388,767
Prepayment	36,873	2,977,322
	2,111,512	5,111,688

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 2020 and 2019 were as follows:

	2020	2019
	HK$	*HK$*
Amount due to directors	3,444,748	2,101,056

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 directors, transactions between the Group and its related parties for the year ended 31 December 2020 and 2019 were as follows:

	2020	**2019**
	HK$	***HK$***
Purchases from Green Health Supplement International Company	375,194	191,642
Deposit received from Green Health Supplement Internation Company	1,007,500	-

At 31 December 2020, the trade payable to Green Health Supplement International Company is HK$1,232,773 (2019: HK$480,311)

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 2020 and 2019 comprise:

	2020	**2019**
	HK$	***HK$***
Cash at bank and in hand	234,118	86,975

19. SHARE CAPITAL

	2020	**2019**
	HK$	**HK$**
Authorised,		
100,000,000 ordinary shares of US$0.001 each	780,000	780,000
Allotted and fully paid:		
No. of shares:		
At the beginning of the year	83,869,236	76,869,020
Issuance of shares	518,682	7,000,216
At the end of the year	84,387,918	83,869,236
Amount:		
At the beginning of the year	652,935	598,333
Issuance of shares	4,046	54,602
At the end of the year	656,981	652,935

On 17 January, 30 January, 3 February and 12 February 2020, the Company entered into a total of five agreements to issue 314,416 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$919,668. These placings and allotments were completed during March 2020.

On 29 June 2019 and 22 September 2020, the Company entered into a total of two agreements to issue 204,266 new US$0.001 ordinary shares, where 99,266 shares were issued at the placing price of 30p per share and the remainder 105,000 shares were issued at a price of 28.5p per share, to raise approximately HK$594,312. These placings and allotments were completed during October 2020.

20. OTHER PAYABLES AND ACCRUALS

	2020	2019
	HK$	*HK$*
Contract liabilities	15,180,452	3,343,452
Accruals and other creditors	14,454,007	39,770,246
	29,634,459	43,113,698

Significant changes in the contract liabilities balance during the period are as follows.

	2020	2019
	HK$	*HK$*
Revenue recognised that was included in the contract liability balance at the beginning of the year	1,349,842	237,000
Increases due to cash received, excluding amounts recognised as revenue during the year	11,208,715	2,095,543

21. BORROWINGS

	2020	2019
	HK$	*HK$*
Due within one year	5,338,620	5,452,172
	5,338,620	5,452,172
Due in more than one year but less than two years	-	-
	-	-

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

On 19th January 2019, the Company revised principal terms are as follows:

Maturity date : 19 January 2020
Interest rate : 8% per annum

On 19th January 2020, the Company revised principal terms are as follows:

Maturity date : 19 July 2021
Interest rate : from 20th January 2020 to 19th October 2020, 7% per annum
from 20th October 2020 to 19th July 2021, 7.5% 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$84k.

At 31 December 2019 and 2020 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 2019. The interest on the loan to 31 December 2020 was HK$290k (2019: HK$376k).

22. CASH USED IN OPERATIONS

Reconciliation of loss before taxation to cash used in operations:

	2020	2019
	HK$	*HK$*
Profit/(Loss) before taxation	6,219,723	(40,619,447)
Adjustments:		
Depreciation of fixed assets	3,981,929	4,209,696
Amortisation	357,143	357,143
Impairment loss for intangible assets and goodwill	-	46,127
Loss on disposal of subsidiaries	-	54,908
Unrealised currency translation losses	(460,995)	(17,985)
Interest income	(314)	(2,137)
Interest expenses	290,088	375,890
Lease interest expenses	129,471	241,855
Operating cash flow before changes in working capital	10,517,045	(35,353,950)
(Increase) / decrease in inventories	3,504,484	(2,173,250)
(Increase) / decrease in trade receivables	297,842	(615,112)
(Increase) / decrease in other receivables and prepayments	3,000,176	(2,570,966)
(Decrease) / increase in trade payables	(1,466,405)	7,771,104
(Decrease) / increase in other payables and accruals	(13,479,239)	14,839,629
Increase in amount due to directors	74,913	-
Cash generated/(used) in operations	2,448,816	(18,102,545)

Reconciliation of liabilities arising from financing activities:

	Note	31 December 2020	Interest paid	Repayment on leases	Fair value movement / interest accrued	31 December 2021
Borrowings	22	5,452,172	(403,520)	-	289,968	5,338,620
Lease Liabilities	24	5,908,241	-	(13,358,585)	129,471	2,679,127

	Note	31 December 2019	Interest paid	Repayment on leases	Fair value movement / interest accrued	31 December 2020
Borrowings	22	5,441,322	(365,040)	-	375,890	5,452,172
Lease Liabilities	24	9,821,343	-	(4,154,957)	241,855	5,908,241

23. LEASES

The Group adopted IFRS 16 with an initial application date of 1 January 2019. The Group applied the modified retrospective approach and comparative information has not been restated. Further information on the adoption of IFRS 16 can be found in note 2.

The Group as a lessee
The Group's leases consist primarily of property premises and are presented below:

Right-of-use assets

	Property Premises
	HK$
Right-of-use assets recognised at 1 January 2019	9,862,399
Depreciation charge for the year	3,868,066
Net book value at 31 December 2019	5,994,333
Depreciation charge for the year	3,623,871
Net book value at 31 December 2020	2,370,463

Lease liabilities included in the consolidated statement of financial position

Current	2,679,127
Non-current	-
Total	2,679,127

Amount recognised in the consolidated income statement

Depreciation on right-of-use property premises	3,623,871
Interest on lease liabilities	129,471
Total	3,753,342

The total cash outflow for leases during the current year was 3,358,585, including 129,471 of interest

24. COMMITMENTS

The Group had future aggregate minimum payments under royalty agreements as follows:

	2020	2019
	HK$	*HK$*
Not later than one year	7,800,000	17,511,751
Later than one year but less than five years	6,240,000	77,320,213
	14,040,000	94,831,964

25. 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 reporting date:

	2020	**2019**
	HK$	*HK$*
Financial assets at amortized costs		
Trade receivables	376,798	674,640
Other receivables	1,368,840	1,388,767
Cash and cash equivalents	234,118	86,975
	1,979,756	2,150,382

Financial Liabilities	**Loans and other payables**	**Loans and other payables**
Financial liabilities		
Trade payables	7,209,544	8,675,949
Lease liabilities	2,706,870	5,908,241
Borrowings	5,601,903	5,452,172
Amount due to directors	2,175,969	2,101,056
Accruals	12,174,299	39,596,903
	29,868,585	61,734,321

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:

	2020	2019
	HK$	*HK$*
Trade receivables	376,798	674,640
Other receivables	1,368,840	1,388,767
Cash and cash equivalents	234,118	86,975
	1,979,756	2,150,382

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$2,341 (2019: HK$869). 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.

Liquidity risk (continued)

	2020	**2019**
	HK$	***HK$***
Financial liabilities due within one year		
Trade payables	7,209,544	8,675,949
Amount due to directors	2,175,969	2,101,056
Accruals	12,174,299	39,596,903
Lease liabilities	2,679,127	5,908,241
Borrowings	5,338,620	5,452,172
	29,577,559	61,734,321

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

The group has a borrowing of HK$5,338,620 that is due for repayment in July 2021, 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$732,354 (2019: HK$1,222,339) 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 HK$73,235 (2019: HK$122,233).

26. 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.

27. POST BALANCE SHEET EVENT

Private Placings

In January 2021, the Company entered into placing agreements with two individual shareholders to issue 831,237 new US$0.001 ordinary shares at a placing price of 28.5p per share to raise approximately HK$2,500,000. The placing and allotment are completed on 20 January 2021.

In June 2021, the Company entered into placing agreements with two individual shareholders to issue 280,287 new US$0.001 ordinary shares at a placing price of 28.5p per share to raise approximately HK$867,885. The placing and allotment are completed in Jun 2021.

COVID-19

The outbreak of COVID-19 creates a new and highly unpredictable challenge. We have tested our business continuity plans which have been successfully activated.

The investment in online platforms for selling our products over recent years has resulted in the business being well placed to continue delivering services to our clients without significant disruption and with no increase in operational risk.

The Group has been taking extensive steps to reduce operating costs to the absolute minimum and has brought in new product to the Group – SD Labs products including SDX, SDST and SD Pro, a high performance full protection self-disinfecting coating spray with one spray protects for 90 days or 180 days. SDX is the only and fastest disinfectant that eliminates Covid-19 under 1 minute. The management remain confident that the business can adjust to the challenges it presents.