MiLOC GROUP LIMITED

DIRECTORS' REPORT AND NON-STATUTORY GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

MiLOC GROUP LIMITED

CORPORATE INFORMATION

DIRECTORS	***Executive directors:*** Dr Chow Ching Fung Ong Ban Poh Michael Ow Dennis Kian Jing ***Independent non-executive directors:*** Ivor Colin Shrago Paul Wyman Cheng
COMPANY NUMBER	237076
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 Clark Whitehill LLP St Bride's House 10 Salisbury Square London EC4Y 8EH
BANKERS	Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong
REGISTRARS	The R&H Trust Co. Limited Windward 1 Regatta Office Park P.O. Box 897GT Grand Cayman Cayman Islands
SOLICITORS	Stephenson Harwood 35/F Bank Of China Tower, 1 Garden Road, Central, Hong Kong

MiLOC GROUP LIMITED

CONTENTS

MiLOC GROUP LIMITED

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

The chairman presents his statement for the year ended 31 December 2011.

Dear Shareholder,

I am pleased to report the results of the Group for the year ended 31 December 2011.

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 research, development, marketing and distribution of traditional Chinese medicine ('TCM') and healthcare products, and (ii) the development and operation of a network of TCM clinics and hospitals across China, Hong Kong ('HK') and Macau.

Financial highlights

Revenue for the year ended 31 December 2011: HK$10,525K (2010: HK$128K)
Loss for the year: HK$7,973K (2010: HK$9,345K)
The basic and diluted loss per share for the year: HK$0.14 (2010: HK$0.73)
The Group's net cash position as at 31 December 2011: HK$2,271K. (2010: HK$10,152K)

Review of significant activities

On 9 February 2011, the Company's wholly-owned subsidiary, MiLOC Medical Limited, entered into an agreement with Modern TCM (BVI) Limited (hereinafter referred to as "Modern TCM") to develop and expand its business ("the Venture") through Miloc Clinics Limited. The Venture objective is to set up and run a traditional Chinese medical clinic network in HK and seek to acquire private traditional Chinese medical practitioners to inject their clinics into the Venture. Modern TCM has significant knowledge, experience and industry contacts in the traditional Chinese medical business and the Company intends to apply that knowledge and experience so as to capitalise on the many opportunities available in Hong Kong. MiLOC Medical owns a majority stake (60%) in the Venture and Modern TCM owns the remaining 40%. The respective rights and liabilities of the partners in the Joint Venture are fully set out in the Agreement. Modern TCM will be required, inter alia, to provide a licence for the use of clinic operating procedures (under ISO9001) as well as Intellectual Property Rights in relation to the operation of clinics.

MiLOC GROUP LIMITED

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

Green Health Supplement International Company (hereinafter referred to as "GHS") was established in 1975 and manufactures and markets a wide range of market-leading supplements and drugs such as Cordyceps, Ganoderma and slimming products. It has its own factory in Hong Kong that produces and packages such supplements and drugs.

On 14 March 2011, MiLOC Pharmaceutical (HK) Limited, another subsidiary of the Company, entered into a three year exclusive distribution agreement ("the agreement") with GHS with the intention of widening the distribution by the Group of Traditional Chinese Medicine supplements and drugs within the Hong Kong Territory.

By leveraging GHS's supplements and drugs, the distribution agreement will enhance the brand awareness of MiLOC Group and its sales revenue. In addition, the distribution agreement marks a strategic move by the Company to broaden the range of premium TCM products it supplies to its customers.

GHS is 100% owned by Mr Chow Ching Fung, Chairman of MiLOC.

On 16 March 2011, MiLOC Medical Limited, a subsidiary of MiLOC entered into an agreement ("the Agreement") for its purchase of the entire issued share capital of Golden Ace Holdings Limited ("GAH") from Lee Mun Keat ("the Vendor") in consideration of the sum of HK$1.00.

On 15 April 2011, MiLOC Clinics Limited, a subsidiary company of MiLOC Medical Limited entered into an agreement ("the Agreement") with Chan Chi Hang and owned by Tung Chau Man ("the Vendors") for its purchase of 60% of the entire issued share capital of Ichi Chinese Medicine Company Limited ("ICHI"). The consideration for such interest was the allocation of 2,301,004 Class B Ordinary Shares of MiLOC Clinics Limited issued and credited as fully paid and registered in the name of the Vendors.

Chan Chi Hang received 1,840,803 Class B Ordinary Shares and Tung Chau Man received 460,201 Class B Ordinary Shares as a consequence of such agreement.

Based on the unaudited seven months management account of ICHI from July 2010 to January 2011, the acquired clinic year to date sales turnover was HK$1,725K (equivalent to GBP137K, exchange rate: 1GBP=HK$12.55) with a net profit of HK$256K (equivalent to GBP20K). Mr Chan Chi Hang as Guarantor of this transaction has under the agreement warranted and guaranteed that the after tax net profit of ICHI for each of its financial years shall not be less than HK$959K (equivalent to GBP 76K). Under the guarantee, if the after tax net profit is less than HK$959K in the relevant year, Mr Chan shall compensate and make good within 30 days after completion of the audited accounts of ICHI to MiLOC the shortfall for the relevant year.

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

Financial review

(i) Revenue and gross profit

The Group's revenue for the year ended 31 December 2011 amounted to HK$10,525K which represented a significant increase as compared to the period from incorporation on 10 February 2010 to 31 December 2010. It was mainly attributable to the fact that the Group introduced its TCM clinic operations through the establishment of entities as well as the acquisitions of the subsidiaries, and further developed its distribution of TCM since it was admitted to the PLUS-quoted market. The Group's revenue for the year included sales of TCM amounted to HK$4,752K and revenue from its clinic operation amounted to HK$5,773K. As results, the Group's gross profit and gross profit margin for the year ended 31 December 2011 amounted to HK$4,686K and was 45%. The gross profit margins for sales of TCM and clinic operation were 31% and 56% respectively.

(ii) Other revenue and operating expenses

The Group's other revenue for the year ended 31 December 2011 amounted to HK$1,063K which mainly included consultancy fee of HK$450K and management fee of HK$335K. The Group's distribution costs for the year ended 31 December 2011 amounted to HK$365K which increased by HK$335K as compared to the period from incorporation on 10 February 2010 to 31 December 2010. It was mainly attributable to the increase in the Group's promotion activities. The Group's administrative expenses for the year ended 31 December 2011 amounted to HK$13,106K which increased by HK$3,578K as compared to the period from incorporation on 10 February 2010 to 31 December 2010. It was mainly attributable to the acquisition of the subsidiaries and the increase in the Group's staff costs.

(iii) Loss and loss per share

The Group's loss for the year amounted HK$7,973K which was improved by HK$1,372K as compared to the period from incorporation on 10 February 2010 to 31 December 2010. As a result, the Group's basic and diluted loss per share for the year was HK$0.14. (2010: HK$0.73)

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

(iv) Balance sheet items

The Group's tangible fixed assets as at 31 December 2011 amounted to HK$1,068K which mainly included leasehold improvements, furniture and fixtures, office equipment and motor vehicle. The Group's fixed assets increased significantly as compared to HK$ Nil as at 31 December 2010 was due to the additions and the acquisition of the subsidiaries during the year.

The Group's intangible assets as at 31 December 2011 amounted to HK$19,400K which was increased by HK$14,400K as compared to HK$5 million as at 31 December 2010. It was mainly due to the acquisition of the licence for the use of TCM procedures.

The Group's goodwill as at 31 December 2011 amounted to HK$2,847K which was increased by HK$2,681K as compared to HK$166K as at 31 December 2010. It was mainly due to the acquisition of the subsidiaries during the year.

The Group's inventories as at 31 December 2011 was HK$1 million which mainly included those TCM and healthcare products purchased during the year.

The Group's trade payables as at 31 December 2011 amounted to HK$841K. The Group's trade payables increased significantly as compared to HK$ Nil as at 31 December 2010 was line with the development of the Groups' distribution of TCM and healthcare products.

The Group's cash and cash equivalents decreased from HK$10,152K as at 31 December 2010 to HK$2,271K as at 31 December 2011. The movements refer to the Group's cash flow statement included in the non-statutory group financial statements.

Outlook

The Group believes that the introduction of reliable TCM on the market as well as the provision of high quality modernised TCM healthcare services will prove to be a successful formula. We will focus initially on Hong Kong, the People's Republic of China ("PRC") and Macau with a view to further expansion in South East Asia. The Group intends to promote a true TCM health care integrated delivery model from primary to tertiary care.

Chow Ching Fung
Chairman
31 May 2012

MiLOC GROUP LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011.

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 research, development, marketing and distribution of traditional Chinese medicine ('TCM') and (ii) the development and operation of a network of TCM clinics and hospitals across China, Hong Kong and Macau.

The Group's revenue for the year ended 31 December 2011 amounted to HK$10,525K which included sales of TCM amounted to HK$4,752K and revenue from its clinic operation amounted to HK$5,773K. The Group's loss for the year amounted to HK$7,973K. The basic and diluted loss per share for the year was HK$0.14. The Group's net cash position as at 31 December 2011 was HK$2,271K.

Financial highlights

	For the year ended 31 December 2011	For the period from incorporation on 10 February 2010 to 31 December 2010
	HK$'000	*HK$'000*
Revenue	10,525	128
Gross profit	4,686	53
Gross profit margin	45%	41%
Administrative expenses	(13,106)	(9,528)
Loss for the year/period	(7,973)	(9,345)
Loss per share – basic and diluted (HK$)	(0.14)	(0.73)

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

MiLOC GROUP LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

Results and dividends

Loss after taxation for the year ended 31 December 2011 amounted to HK$7,973K (2010:HK$9,345K).

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

Post balance sheet events

The Group has no significant post balance events to be disclosed.

Directors

The directors who held office during the year are:

Executive directors:

Dr Chow Ching Fung – Chairman

Ong Ban Poh Michael

Ow Dennis Kian Jing

Independent non-executive directors:

Ivor Colin Shrago

Paul Wyman Cheng

Directors' interest

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 2011	Number of ordinary shares held as at 31 December 2010
Executive directors:		
Dr Chow Ching Fung (note a)	42,224,696	42,224,696
Ong Ban Poh Michael (note a)	42,224,696	42,224,696
Ow Dennis Kian Jing	732,636	732,636
Independent non-executive directors:		
Ivor Colin Shrago	138,683	138,683
Paul Wyman Cheng	-	-

MiLOC GROUP LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

Notes:

(a)
Dr 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, Dr 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 69.7% of the issued share capital at 31 December 2011.

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 2011	Number of ordinary shares held as at 31 December 2010
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.

Principal risks and uncertainties

The directors acknowledge that the Group has a limited operating history and that its business plan is subject to qualification according to potential threats from competitors, industrial trends, and regulatory requirements that may impact on the execution of its business plan and upon the expansion of its operations. The directors keep all such threats under review and regularly evaluate the business plan and endeavor to assess any potential risk that could impact on the Group's operations, its capital requirements and financial exposure. The directors will, according to these risks and where necessary, modify the company's strategies in order to overcome or minimise any risk exposure.

Financial instruments

During the year ended 31 December 2011, the major source of finance was through working capital management following the issuance of share capital in the prior period. By executing the business plan going forward, the Group anticipates that its principal sources of finance will comprise cash in the bank and trade receivables. The main purpose of these instruments is to raise funds 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.

Annual general meeting

The annual general meeting of the Company will be held on 29 Jun 2012 at 10:00 am on 12/F, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong.

MiLOC GROUP LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

Substantial shareholders

As at 31 May 2012, 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	68.29%
Lim Yi Shenn	5,325,864	8.61%
Chow King Tung	5,276,622	8.53%

(a)
Dr 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, Dr 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 Clark Whitehill 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 May 2012 and signed on its behalf.

Ong Ban Poh Michael
Director
31 May 2012

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

Independent auditor's report to the directors of

MiLOC Group Limited

We have audited the non-statutory group financial statements of MiLOC Group Limited (the Group) for the year ended 31 December 2011 which comprise the Group Statement of Financial Position, the Group Statement of Comprehensive Income, the Group Statement of Changes in Equity, the Group Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

Our responsibility is to audit and express an opinion on the non-statutory group financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report is made solely to the company's directors. Our audit work has been undertaken so that we might state to the company's directors 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 directors for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the non-statutory group financial statements and for being satisfied that they give a true and fair view.

Scope of the audit of the non-statutory group financial statements

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory group financial statements sufficient to give reasonable assurance that the non-statutory group

financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory group financial statements.

In addition, we read all the financial information and non-financial information in the non-statutory group financial statements to identify material inconsistencies with the audited non-statutory group financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

Opinion on the non-statutory group financial statements

In our opinion:

- The non-statutory group financial statements give a true and fair view of the state of the group's affairs as at 31 December 2011 and of the group's loss for the year then ended; and
- The non-statutory group financial statements have been properly prepared in accordance with IFRSs as issued by the International Accounting Standards Board.

Crowe Clark Whitehill LLP

Crowe Clark Whitehill LLP

Chartered Accountants

St Bride's House
10 Salisbury Square
London
EC4Y 8EH

31 May 2012

MiLOC Group Limited
Consolidated Statement of Comprehensive Income
For the year ended December 2011

	Notes	For the year ended 31 December 2011	For the period from incorporation on 10 February 2010 to 31 December 2010
From continuing operations		*HK$*	*HK$*
Revenue	*3*	10,525,027	128,404
Cost of sales		(5,838,630)	(75,130)
Gross profit		4,686,397	53,274
Other revenue	*3*	1,062,925	-
Distribution costs		(365,294)	(29,822)
Administrative expenses		(13,105,870)	(9,528,421)
Foreign exchange gains		100,183	159,579
Operating loss	*4*	(7,621,659)	(9,345,390)
Finance costs	*5*	(7,588)	(18)
Interest income		282	38
Loss before taxation		(7,628,965)	(9,345,370)
Taxation	*6*	(344,000)	-
Loss for the for year/period		(7,972,965)	(9,345,370)
Other comprehensive income		-	-
Total comprehensive result for the year/period		**(7,972,965)**	**(9,345,370)**
Attributable to:			
The equity holders of the parent entity		(8,552,716)	(9,345,370)
Non-controlling interests		579,751	-
		(7,972,965)	(9,345,370)
Loss per share – from continuing operations (HK$)			
Basic	*9*	(0.14)	(0.73)
Diluted	*9*	(0.14)	(0.73)

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

MiLOC Group Limited
Consolidated Statement of Financial Position
As of 31 December 2011

	Notes	*As at 31 December 2011* *HK$*	*As at 31 December 2010* *HK$*
Assets			
Non-current assets			
Fixed assets	*10*	1,067,964	-
Other intangible assets	*11*	19,400,000	5,000,000
Goodwill	*12*	2,846,964	165,691
		23,314,928	5,165,691
Current assets			
Inventories	*14*	999,914	-
Trade receivables	*15*	175,182	-
Other receivables and prepayments	*16*	1,126,372	514,554
Amount due from shareholders	*17*	80,277	98,051
Cash and cash equivalents	*18*	2,270,849	10,152,313
		4,652,594	10,764,918
Total assets		**27,967,522**	**15,930,609**
Equity and liabilities			
Equity			
Share capital	*19*	481,046	481,046
Share premium		22,506,221	22,506,221
Retained earnings		(17,898,086)	(9,345,370)
Equity attributable to the parent entity		5,089,181	13,641,897
Non-controlling interests		17,280,755	-
Total equity		22,369,936	13,641,897
Liabilities			
Current liabilities			
Trade payables		840,857	-
Other payables and accruals	*20*	2,304,404	2,280,945
Amount due to shareholders	*17*	-	7,767
Amounts due to directors	*17*	2,108,325	-
Taxation payable		344,000	-
		5,597,586	2,288,712
Total equity and liabilities		27,967,522	15,930,609

Approved by the Board of Directors on 31 May 2011.

Signed on behalf of the directors

Ong Ban Poh Michael
Director

The accompanying accounting policies and notes 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 2011

	Notes	Share capital *HK$*	Share premium *HK$*	Retained earnings *HK$*	Total *HK$*	Non-controlling interests *HK$*	Total Equity HK$
Date of incorporation							
As at 10 February 2010		-	-	-	-	-	-
Comprehensive Income and Total Comprehensive Income							
Loss for the period		-	-	(9,345,370)	(9,345,370)	-	(9,345,370)
Transactions with owners							
Gross increase in share capital	19	481,046	27,913,310	-	28,394,356	-	28,394,356
Share issue expenses		-	(5,407,089)	-	(5,407,089)	-	(5,407,089)
At 31 December 2010 and 1 January 2011		**481,046**	**22,506,221**	**(9,345,370)**	**13,641,897**	-	**13,641,897**
Comprehensive Income and Total Comprehensive Income							
Loss for the year		-	-	(8,552,716)	(8,552,716)	579,751	(7,972,965)
Transactions with owners							
On acquisition of subsidiaries		-	-	-	-	16,701,004	16,701,004
At 31 December 2011		**481,046**	**22,506,221**	**(17,898,086)**	**5,089,181**	**17,280,755**	**22,369,936**

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 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 2011

	Notes	For the year ended 31 December 2011	For the period from incorporation on 10 February 2010 to 31 December 2010
		HK$	*HK$*
OPERATING ACTIVITIES			
Cash used in operations	*21*	(7,129,885)	(807,887)
INVESTING ACTIVITIES			
Purchase of fixed assets		(1,052,850)	-
Acquisition of subsidiaries, net of cash acquired		308,577	36,384
Interest received		282	38
Net cash (used in)/generated from investing activities		(743,991)	36,422
FINANCING ACTIVITIES			
Issuance of shares		-	14,290,139
Payments of share issue expenses		-	(3,366,343)
Interest paid		(7,588)	(18)
Net cash (used in)/generated from financing activities		(7,588)	10,923,778
Net (decrease)/increase in cash and cash equivalents		(7,881,464)	10,152,313
Cash and cash equivalents at beginning of year/period		**10,152,313**	-
Cash and cash equivalents at end of year/period		**2,270,849**	**10,152,313**

Summary of major non-cash transactions:

During the year ended 31 December 2011, the Group acquired the intangible asset of HK$14,400,000 by the issuance of share capital of its subsidiaries.

The accompanying accounting policies and notes 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 research, development, marketing and distribution of traditional Chinese medicine ("TCM") and healthcare products, and (ii) the development and operation of a network of TCM clinics and hospitals in China, Hong Kong and Macau.

The non-statutory group financial statements were approved by the board of directors and authorised for issue on 31 May 2012 and are authorised to be signed on its behalf.

The financial information contained in the non-statutory group financial statements is presented in Hong Kong Dollars ("HK$").

2. PRINCIPAL ACCOUNTING POLICIES

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.

The Group made a loss of HK$7.98 million in the year ended 31 December 2011. At the balance sheet date, the Group had cash balances of HK$2.27 million.

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 2011 expansion of the Group's hospital and clinic network and the progress and sale of the Group's primary TCM, Rorrico, and have been reviewed and approved by the Board of Directors.

As the Group is still in its development phase, 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. 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 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.

Consolidation and business combinations

The non-statutory group financial statements include the financial results of the Company and all of its subsidiaries (the 'Group') made up to 31 December 2011 (subsidiaries detailed further in Note 13).

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary in the non-statutory group financial statements, to ensure consistency with the policies adopted by the Group.

Financial assets

Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All arms length purchases and sales of financial assets are recognised on the trade date ie the date that the Group commits to purchase the asset. Such purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place concerned.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party of contractual provisions of the instrument. Financial liabilities are recorded initially as fair value, net off direct issue costs.

Changes in fair value of financial liabilities are reported in the consolidated comprehensive statement of income in finance costs or finance income.

Derecognition of financial assets and liabilities

(i) *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:-

- The contractual rights to receive cash flows from the asset have expired;
- The Group retains the contractual rights to receive cash flows from the assets, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in equity is recognized in the consolidated statement of comprehensive income.

(ii) *Financial liabilities and equity instruments*

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. 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.

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*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is recognised in the consolidated statement of comprehensive income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(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 have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment. In respect of jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash-generating unit or a jointly controlled entity during the year any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

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, generally not exceeding 20 years, 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, usually when a regulatory filing has been made in a major market and approval is considered highly probable.

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. The Directors have assessed the intangible assets in the year under review and no amortisation charge has been included as the intangible assets were not in use.

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 bring 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. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

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

Where parts 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

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the non-statutory group financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

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 realised 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. Net realised 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 when the related revenue is recognised. The amount of any write-down of inventories to net realized value and all losses of inventories are recognised as 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 expense in the period which the reversal occurs.

Trade and other receivables

Trade and other receivables are initially recognized 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

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sale of goods and trading of raw material services are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods and services are delivered and the title has passed to the customer.

Revenue form the provision of clinical services is recognised when the services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Research and development costs

Research expenditure is recognised in the statement of comprehensive income in the period which it is incurred.

Development expenditure is recognised in the statement of comprehensive income 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.

This policy is in line with industry practice.

Leases

Assets that are held by the Group under leases which transfer to the Group substantially all risks and rewards of ownership are classified as being held under finance leases.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for land and buildings classified as investment properties are accounted for as if held under a finance lease. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

Foreign currency translation

Items included in the non-statutory group's financial statements are measured using the currency of the primary economic environment in which the Group operates ("functional currency").

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

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 is responsible for allocating resources and assessing performance of the operating segments and makes strategic decisions for the Group.

Equity-settled Share based payments

Equity-settled share-based payment, the Group reflects the economic cost of awarding shares and share options to employees by recording an expense in the income statement equal to the fair value of the benefit awarded, fair value being determined by reference to option pricing models. The expense is recognised in the income statement over the vesting period of the award. Refer to note 27 for details

New standards and interpretations issued by IASB but not applied early by the Group

The following standards and interpretations which have not been applied in this consolidated financial information were in issue but not yet effective:

Accounting standard	Name of the standard	Effective date
IFRS 9	Financial Instruments - Classification and measurement	on or after 1 January 2013
IFRS 10	Consolidated Financial Statements	Annual periods beginning on or after 1 January 2013
IFRS 11	Joint Arrangements	Annual periods beginning on or after 1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	Annual periods beginning on or after 1 January 2013
IFRS 13	Fair Value Measurement	Annual periods beginning on or after 1 January 2013
IAS 12	Income Taxes - Limited scope amendment (recovery of underlying assets)	on or after 1 January 2012
IAS 1 (amended)	Presentation of Items of Other Comprehensive Income	
IAS 12 (amended)	Deferred Tax: Recovery of Underlying Assets	
IAS 19 (revised)	Employee Benefits	
IAS 27 (revised)	Separate Financial Statements	
IAS28 (revised)	Investments in Associates & Joint Ventures	

Based on the Group's current business model and accounting policies, management does not expect material changes to the recognition and measurement principles applied in the Group's non-statutory financial statements when these Standards / Interpretations become effective. However, the Directors are aware that the application of the above standards and interpretations will significantly alter the amount and complexity of the disclosures contained in the Group's subsequent non-statutory financial statements.

Critical accounting estimates and judgments

Estimates and judgements 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 judgements and other uncertainties affecting 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 forth in note 2. Other than the assumptions relating to impairment test on goodwill, the Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the non-statutory group financial statements.

Impairment

If circumstances indicate that the carrying value of investment in a subsidiary, intangible assets and goodwill may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with IAS 36, *Impairment of Assets*. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to estimate precisely fair values because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in (i) the research, development, marketing and distribution of traditional Chinese medicine ("TCM") and (ii) the development and operation of a network of TCM clinics and hospitals in China, Hong Kong and Macau. Revenue recognised during the year can be analysed as follows:

	For the year ended 31 December 2011	For the period from incorporation on10 February 2010 to 31 December 2010
	HK$	*HK$*
Revenue		
Sales of TCM and healthcare products	4,752,253	128,404
Provision of clinical services	5,772,774	-
	10,525,027	128,404
Other revenue		
Consultancy fee	450,000	-
Management fee	334,817	-
Income for holding healthcare conference	114,000	-
Others	164,108	-
	1,062,925	

Management has determined the operating segments based on the reports reviewed by the board of directors that is charged with the strategic decision making process for the Group. Management has considered the basis of reports that are expected to be reviewed by the board when the business enters the revenue earning stage of its business cycle.
The board of directors considers the business to be made up of two business segments, being revenues from the sales of TCM and healthcare products and clinic business.

(a) Segment results, assets and liabilities

The Group manages its businesses by segments which are organised by business lines. In a manner consistent with the way which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

The research, development, marketing and distribution of TCM and healthcare products: this segment researches, develops, markets and distributes TCM and healthcare products. Currently, the Group's activities in this regard are carried out in Hong Kong.

The development and operation of a network of TCM clinics and hospitals in China, Hong Kong and Macau. Currently, the Group's activities in this regard are carried out in Hong Kong.

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

Revenue and expenses are allocated to the reportable segments with 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 measurement used for reporting segment profit/(loss) is profit/(loss) from operations, i.e., adjustment earnings before finance costs, interest income and taxation expense of the Group. To arrive at profit/(loss) from operations, the Group's earnings are further adjusted items not specifically attributable to individual segments such as other head office or corporate revenue and administrative expenses.

Information regarding the Group's reportable segments as provide to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2011 and the period from incorporation on 10 February to 31 December 2010 is set out below:

	For the year ended 31 December 2011		
	The research, development, marketing and distribution of TCM and healthcare products	The development and operation of a network of TCM clinics	Total
	HK$	*HK$*	*HK$*
Revenue			
- External sales	4,752,253	5,772,774	10,525,027
Segment results	(4,792,456)	1,382,298	(3,410,158)
Unallocated income and expenses			(4,211,501)
Operating loss			(7,621,659)
Finance costs			(7,588)
Interest income			282
Loss before taxation			(7,628,965)
Taxation			(344,000)
Loss for the year			(7,972,965)

	For the year ended 31 December 2011		
	The research, development, marketing and distribution of TCM and healthcare products	The development and operation of a network of TCM clinics	Total
	HK$	*HK$*	*HK$*
Additions of			
- Intangible assets	-	14,400,000	14,400,000
- Fixed assets	772,862	606,692	1,379,554
Depreciation of			
- Fixed assets	184,020	127,570	311,590
Segment assets	8,108,144	17,917,633	26,025,777
Segment liabilities	1,146,057	3,172,681	4,318,738

	For the period from incorporation on 10 February to 31 December 2010		
	The research, development, marketing and distribution of TCM and healthcare products	The development and operation of a network of TCM clinics	Total
	HK$	*HK$*	*HK$*
Revenue			
- External sales	128,404	-	128,404
Segment results	51,274	(80,287)	(29,013)
Unallocated income and expenses			(9,316,377)
Operating loss			(9,345,390)
Finance costs			(18)
Interest income			38
Loss before taxation			(9,345,370)
Taxation			-
Loss for the period			(9,345,370)

	For the period from incorporation on 10 February to 31 December 2010		
	The research, development, marketing and distribution of TCM and healthcare products	**The development and operation of a network of TCM clinics**	**Total**
	HK$	***HK$***	***HK$***
Additions of			
- Intangible assets	5,000,000	-	5,000,000
- Fixed assets	-	-	-
Depreciation of			
- Fixed assets	-	-	-
Segment assets	5,131,892	42,519	5,174,411
Segment liabilities	-	-	-

(b) Reconciliation of reportable segment assets and liabilities

	As at 31 December 2011	**As at 31 December 2010**
	HK$	***HK$***
Assets		
Reportable segment assets	26,025,777	5,174,411
Unallocated head office and corporate assets	1,941,745	10,756,198
Consolidated total assets	27,967,522	15,930,609
Liabilities		
Reportable segment liabilities	4,318,738	-
Current tax payable	344,000	-
Unallocated head office and corporate liabilities	934,848	2,288,712
Consolidated total liabilities	5,597,586	2,288,712

(c) Geographic information

In addition to this, the board also considers segmental information from a geographic perspective. Geographically, the vast majority of the Group's operations up to the date of the statement of financial position have been located in Hong Kong; therefore, significantly all of the Groups' revenue are attributable to Hong Kong. When the business enters the revenue earning stage from the financial year ended 31 December 2011, management considered that the performance of the Group was under Hong Kong.

4. OPERATING LOSS

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

	For the year ended 31 December 2011	For the period from incorporation on10 February 2010 to 31 December 2010
	HK$	*HK$*
Auditor's remuneration	187,000	240,000
Depreciation of fixed assets	311,590	-
Operating lease charges: minimum lease payments for properties	2,897,250	18,322
Exchange gain	(100,183)	(159,579)

5. FINANCE COSTS

	For the year ended 31 December 2011	For the period from incorporation on 10 February to 31 December 2010
	HK$	*HK$*
Interest expenses for hire purchase	7,586	-
Others	2	18
	7,588	18

6. TAXATION

Taxation in the consolidated statement of comprehensive income represents:

	For the year ended 31 December 2011	For the period from incorporation on10 February 2010 to 31 December 2010
	HK$	*HK$*
Hong Kong corporate income tax		
- Provision for the year/period	344,000	-
	344,000	-

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

	For the year ended 31 December 2011	For the period from incorporation on10 February 2010 to 31 December 2010
	HK$	*HK$*
Loss before taxation	7,972,965	9,345,370
Loss multiplied by standard rate of corporation tax in Hong Kong of 16.5%	1,315,539	1,541,986
Effect of:		
Creation of tax losses for which no deferred tax asset was recognized	(971,539)	(1,541,986)
		-
		-
	344,000	-

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

	For the year ended 31 December 2011	For the period from incorporation on10 February 2010 to 31 December 2010
	HK$	*HK$*
Salaries, wages and other benefits	4,586,614	-
Contributions to defined contribution plan	186,559	-
	4,773,173	-

8. COMPENSATION OF KEY MANAGEMENT PERSONNEL

	For the year ended 31 December 2011	For the period from incorporation on10 February 2010 to 31 December 2010
	HK$	*HK$*
Salaries and other short-term benefits:		
-Salaries and allowances	2,490,000	-
-Retirement scheme contribution	37,000	-
	2,527,000	-

The directors of the group represent the group's key management personnel. Each of Messrs Dr Chow Ching Fung, Ong Ban Poh Michael, Ow Dennis Kian Jing, Ivor Colin Shrago and Paul Wyman Cheng has entered into a service agreement with the Company for an initial term commencing from 20 December 2010 to 19 December 2011.

9. EARNING S PER SHARE – BASIC AND DILUTED

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/period.

	For the year ended 31 December 2011 *HK$*	For the period from incorporation on10 February 2010 to 31 December 2010 *HK$*
Losses attributable to equity holders of parent entity	(8,552,716)	(9,345,370)
Number of shares		
Weighted average number of ordinary shares in issue	61,831,069	12,861,144

Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has no dilutive potential ordinary shares as the share options are anti-dilutive.

	For the year ended 31 December 2011 *HK$*	For the period from incorporation on10 February 2010 to 31 December 2010 *HK$*
Losses attributable to equity holders of parent entity	(8,552,716)	(9,345,370)
Number of shares		
Weighted average number of ordinary shares in issue	61,831,069	12,861,144

A conditional option agreement dated 20 December 2010 between the Company and ZAI Corporate Finance Limited ("ZAI") pursuant to which the Company has granted an option to ZAI over 72,161 Ordinary Shares. The option is exercisable by notice to the Company at the placing price at any time during the five year period commencing on the date of Admission. The effect of the share options are anti-dilutive in the current period, therefore, the basic and dilutive loss per share are consistent.

10. FIXED ASSETS

	Leasehold improvements	Furniture & fixtures	Office equipment	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Cost					
At 31 December 2010 and 1 January 2011	-	-	-	-	-
Additions	490,193	164,465	398,192	-	1,052,850
Acquisition of subsidiaries	65,333	14,652	116,908	129,811	326,704
At 31 December 2011	555,526	179,117	515,100	129,811	1,379,554
Accumulated Depreciation					
At 31 December 2010 and 1 January 2011	-	-	-	-	-
Charge for the year	106,456	34,697	150,293	20,144	311,590
At 31 December 2011	106,456	34,697	150,293	20,144	311,590
Net book value					
At 31 December 2010	-	-	-	-	-
At 31 December 2011	449,070	144,420	364,807	109,667	1,067,964

11. INTANGIBLE ASSETS

	Patent of TCM	Licence of quality management system for TCM clinic	Total
	HK$	*HK$*	*HK$*
Cost			
At 10 February 2010	-	-	-
Additions	5,000,000	-	5,000,000
At 31 December 2010	5,000,000	-	5,000,000
Accumulated amortisation			
At 10 February 2010	-	-	-
Additions	-	-	-
At 31 December 2010	-	-	-
Net book value			
At 31 December 2010	5,000,000	-	5,000,000
Cost			
At 1 January 2011	5,000,000		5,000,000
Additions	-	14,400,000	14,400,000
At 31 December 2011	5,000,000	14,400,000	19,400,000
Accumulated amortisation			
At 1 January 2011	-	-	-
Additions	-	-	-
At 31 December 2011	-	-	-
Net book value			
At 31 December 2011	5,000,000	14,400,000	19,400,000

Patent of TCM:

The patent was not amortised during the period the patent is not yet available for use. Initial valuations and valuations for subsequent impairment tests are based on established market multiples or risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgmental. Future events could cause the assumptions used in these impairment reviews to change with a consequent adverse effect on the future results of the Group.

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

Licence of quality management system for TCM clinic:

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

The quality management system was not amortised in this accounting period as the charge would not have been material. Initial valuations and valuations for subsequent impairment tests are based on established market multiples or risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgmental. Future events could cause the assumptions used in these impairment reviews to change with a consequent adverse effect on the future results of the Group. The quality management system is tested annually for impairment applying a value in use methodology, generally using seven year post-tax cash flow forecasts with a terminal value calculation and a discount rate of 17%, adjusted where appropriate for country-specific risks. The main assumptions include future revenue growth and projected royalty fee assumed to pay for the system. These assumptions are based on past experience and are reviewed as part of management's strategic planning cycle for changes in market conditions and sales erosion through competition. The terminal growth rates applied of 3% is management's estimates of future long-term average growth rates of the relevant markets.

12. GOODWILL

	HK$
Balance as at 10 February 2010	-
Additions through acquisitions of subsidiaries (Note 23)	165,691
Impairment charged for the period	-
Balance as at 31 December 2010 and 1 January 2011	165,691
Additions through acquisitions of subsidiaries (Note 23)	2,681,273
Impairment charged for the year	-
Balance as at 31 December 2011	2,846,964

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

The recoverable amount of the goodwill is determined based on value-in use calculations. Cash flows are extrapolated using the estimated rates stated below. These calculations use cash flow projections based in financial budgets approved by management covering a one-year period. Cash flow projections are extrapolated up to a period of 5 years by using the estimated rates stated below. The growth rate does not exceed the long term average growth rate for the business in which the CGU operates.

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

Gross margin	31% - 56%
Growth rate	20%
Discount rate	17%

13. INTEREST IN SUBSIDIARIES

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

Name of subsidiary	Date and place of incorporation	%	Acquired from:	Principal activities
Interests held directly by the Company:				
Cash generating unit:				
MiLOC Pharmaceutical Limited	20 November 2009, BVI	100%	Dr Chow Ching Fung	Marketing and distribution of TCM
MiLOC Medical Limited	16 March 2010, BVI	100%	Dr Chow Ching Fung	Operation of TCM Clinics and Hospitals
Non-cash generating unit:				
MiLOC Biotechnology Limited	6 November 2009, BVI	100%	Dr Chow Ching Fung and ONG, Ban Poh Michael	Research and development of TCM
Interests held indirectly by the Company:				
Cash generating unit:				
MiLOC Pharmaceutical (HK) Ltd	9 March 2011, HK	100%	N/A	Retailing and wholesaling of health care and related products
MiLOC Clinics Limited	15 February 2011, BVI	60%	N/A	Receipt of royalty fee from clinics
MiLOC Medical Limited	24 January 2011, HK	100%	N/A	Provision of medical services and retailing of healthcare and

				related products
MiLOC Medical Jor1 Limited	25 September 2007, HK	100%	Golden Ace Holdings Limited	Provision of medical services
MiLOC Clinics Jor2 Limited	19 July 2010, HK	36%	Dr Chan Chi Hang	Provision of medical services
MiLOC Store Limited	18 October 2010, HK	100%	Golden Ace Holdings Limited	Retailing and wholesaling of health and related products
Non-cash generating unit:				
Smart Falcon Limited	3 December 2009, BVI	100%	He Yu and Professor He Zhong Sheng	Holding company of the TCM IP Rights in relation to Rorrico
MiLOC Clinics (HK) Limited	15 March 2011, BVI	60%	N/A	Dormant
Golden Ace Holdings Limited	28 September 2010, BVI	100%	LEE Mun Keat	Investment holding company
MiLOC Pharmaceutical (Macau) Limited	9 June 2011, Macau	100%	N/A	Dormant

14. INVENTORIES

The inventories as at 31 December 2011 and 2010 are as follows.

	2011	**2010**
	HK$	***HK$***
Finished goods	999,914	-

15. TRADE RECEIVABLES

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

16. OTHER RECEIVABLES AND PREPAYMENT

All balances are expected to be recovered or recognised as expenses within one year. No amounts are past due or impaired.

17. SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant transactions between the Group and its related parties as at 31 December 2011 were as follow:

	2011	**2010**
	HK$	***HK$***
Amount due from shareholders	80,277	98,052
Amount due to shareholders	-	7,767
Amount due to directors	2,108,325	-
	2,108,325	7,767

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

The amount due to the shareholders as at 31 December 2010 relates to the consideration for the acquisition of subsidiaries during the period.

The amount due to the directors as at 31 December 2011 relates to the payments made by the directors on behalf of the Group.

Apart from the above amount from/to the related companies, significant transactions between the Group and its related parties for the 31 December 2011 were as follows:

	For the year ended 31 December 2011	For the period from incorporation on10 February 2010 to 31 December 2010
	HK$	*HK$*
Purchases from a related company *	3,256,324	75,130
Management fee to administrative services received from a related company *	99,417	-
Rental fee received from a related company *	60,000	-

* Related company – company owned by a shareholder.

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2010 and 2011 comprise:

	2011	2010
	HK$	*HK$*
Cash at bank and in hand	2,270,849	10,152,313

19. SHARE CAPITAL

	2011 HK$	2010 HK$
Authorised, 100,000,000 ordinary shares of US$0.001 each	775,000	775,000
At 10 February 2010		
Allotted and fully paid: Increase in share capital during the period – 52,069,070 ordinary shares of US$0.001 each		405,098
Allotted and called up: Increase in share capital during the period - 9,761,999 ordinary shares of US$0.001 each		75,948
At 31 December 2010		481,046
At 31 December 2011		481,046

On 3 May 2010, the Company allotted 9,761,999 ordinary shares for cash at US$0.001 per share.

On 3 May 2010, the Company allotted 238,000 ordinary shares for cash at HK$10 per share.

On 1 June 2010, the Company allotted a further 200,000 ordinary shares at HK$10 per share.

On 1 June 2010, 200,000 ordinary shares allotted previously were repurchased by the Company for cash at US$0.001 per share and cancelled.

On 11 August 2010, the Company allotted 25,000 ordinary shares for cash at HK$14.96 per share.

On 8 October 2010, the authorised share capital of the Company was increased from US$50,000 to US$100,000 by the creation of 50,000,000 new ordinary shares.

On 8 January 2010, MiLOC Biotechnology entered into a sale and purchase agreement to acquire the entire issued share capital of Smart Falcon (the "Acquisition") for a consideration of shares in the Company equivalent to HK$5 million on Admission. As at 31 March 2010, Smart Falcon holds the intellectual property rights of a traditional Chinese medicine named Rorrico (the 'TCM IP Rights') valued at HK$1. As a result of the Acquisition, a fair value adjustment of HK$5 million was made to increase the net asset value of the Group.

Although the agreement was entered into on 8 January 2010, completion of the Acquisition occurred on 22 November 2010. The Company allotted 805,900 ordinary shares for the settlement of the Acquisition. The fair value adjustment of HK$5 million was made on the basis that the Acquisition is valued at the price that would be received for an asset or paid to transfer a liability in a transaction between market participants at Acquisition, i.e. the agreed transfer price of HK$5 million between MiLOC Biotechnology and the seller as per the sale and purchase agreement.

On 20 December 2010, the Company allotted 2,405,363 new ordinary shares of US$0.001 each at GBP0.33 each.

On 20 December 2010, the Company allotted 2,547,837 new ordinary shares of US$0.001 each at GBP0.33 each for the settlement of professional and consultancy fess.

On 20 December 2010, the Company allotted 415,160 new ordinary shares of US$0.001 each at GBP0.33 each for the revaluation of the acquisition of Smart Falcon.

On 20 December 2010, the Company allotted 45,587,002 new ordinary shares of GBP0.33 each for the placement of shares on the PLUS market.

20. OTHER PAYABLES AND ACCRUALS

	2011	2010
	HK$	*HK$*
Other payables	370	200
Receipts in advance	839,305	-
Accruals	1,351,456	2,280,745
Others	113,273	-
	2,304,404	2,280,945

21. CASH USED IN OPERATIONS

Reconciliation of loss before taxation to cash used in operations:

	For the year ended 31 December 2011	For the period from incorporation on 10 February to 31 December 2010
	HK$	*HK$*
Loss before taxation	(7,628,965)	(9,345,370)
Adjustments:		
Consultancy fees settled by the issuance of ordinary shares	-	9,030,000
Depreciation of fixed assets	311,590	-
Interest income	(282)	(38)
Interest expenses	7,588	18
Operating loss before changes in working capital	(7,310,069)	(315,390)
(Increase)/decrease in inventories	(262,904)	20,570
Decrease in trade receivables	419,912	15,040
Increase in other receivables and prepayments	(597,218)	(2,199,649)
Decrease in amount due from shareholders	926,360	15,250
Increase in trade payables	576,534	-
(Decrease)/increase in other payables and accruals	(208,962)	2,280,945
Decrease in amount due to shareholders	(7,767)	(624,653)
Decrease in amount due to directors	(665,769)	-
Cash used in operations	(7,129,885)	(807,887)

22. ACQUISITION OF SUBSIDIARIES

(a) For the period from incorporation on 10 February to 31 December 2010:

On 8 April 2010, the Company acquired the entire issued share capital and voting right of MiLOC Pharmaceutical Limited ("MiLOC Pharm"), MiLOC Biotechnology Limited ("MiLOC Biotech") and MiLOC Medical Limited ("MiLOC Medical") for a consideration of USD1, USD1,000 and USD1. On 22 November 2010, the Group completed to acquire the entire issued share capital and voting right of Smart Falcon Limited ("Smart Falcon") for a consideration of HK$5,000,000. Details of the subsidiaries refer to Note 10 to the non-statutory group financial statements. The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Smart Falcon	MiLOC Biotech	MiLOC Medical	MiLOC Pharm	Total
	HK$	HK$	HK$	HK$	HK$
Intangible assets	5,000,000				5,000,000
Inventories	-	-	-	20,570	20,570
Trade receivables	-	-	-	15,040	15,040
Prepayments	-	355,650	-	-	355,650
Amounts due from shareholders	-	7,751	8	31,326	39,085
Cash and cash equivalents	-	44,151	-	-	44,151
Amounts due to shareholders	-	(400,000)	-	(232,420)	(632,420)
Total fair value of net assets acquired	5,000,000	7,552	8	(165,484)	4,842,076
Total consideration	5,000,000	7,751	8	8	5,007,767
Goodwill	-	199	-	165,492	165,691
Total consideration comprises:					
Share capital	5,000,000	-	-	-	5,000,000
Amount due to shareholders	-	7,751	8	8	7,767
Total	5,000,000	7,751	8	8	5,007,767

The book values of the subsidiaries acquired are equal to their fair value.

The net cash inflow from the above business combination is HK$36,384, which comprises of the cash and cash equivalents acquired of HK$44,151 less the cash consideration of HK$7,767.

Goodwill of HK$165,691 has been recognised on acquisition and its attributable to future operating synergies from the combination.

Acquisition of MiLOC Pharm:

In the period following the acquisition, MiLOC Pharm has contributed HK$128,404 to the Group's revenue and a profit of HK$51,274 to the Group's loss which has been included in the consolidated statement of comprehensive income for the period.

If the acquisition had occurred on 10 February 2010, the Group's revenue would have been HK$154,724 and the Group's loss for the period would have been HK$9,334,450.

Acquisition of MiLOC Biotech:

In the period following the acquisition, MiLOC Biotech has contributed a loss of HK$78,119 to the Group's loss which has been included in the consolidated statement of comprehensive income for the period.

If the acquisition had occurred on 10 February 2010, the Group's loss for the period would have been HK$9,345,569.

Acquisition of MiLOC Medical:

In the period following the acquisition, MiLOC Medical has contributed a loss of HK$2,168 to the Group's loss which has been included in the consolidated statement of comprehensive income for the period.

If the acquisition had occurred on 10 February 2010, the Group's loss for the period would have been HK$9,345,370.

Acquisition of Smart Falcon:

In the period following the acquisition, there were no contributions from Smart Falcon to the Group's consolidated statement of comprehensive income for the period.

If the acquisition had occurred on 10 February 2010, the Group's loss for the period would have been HK$9,345,370.

(b) For the year ended 31 December 2011:

On 16 March 2011, MiLOC Medical Limited, a subsidiary of MiLOC entered into an agreement ("the Agreement") for its purchase of the entire issued share capital of Golden Ace Holdings Limited ("GAH") from Lee Mun Keat ("the Vendor") in consideration of the sum of HK$1.00.

On 15 April 2011, MiLOC Clinics Limited, a Joint Venture Company of MiLOC Medical Limited entered into an agreement ("the Agreement") with Chan Chi Hang and owned by Tung Chau Man ("the Vendors") for its purchase of 60% of the entire issued share capital of Ichi Chinese Medicine Company Limited ("ICHI"). The consideration for such interest was the allocation of 2,301,004 Class B Ordinary Shares of MiLOC Clinics Limited issued and credited as fully paid and registered in the name of the Vendors.

The acquisition of the above subsidiaries had the following effect on the Group's assets and liabilities on the acquisition date:

	GAH	ICHI	Total
	HK$	HK$	HK$
Fixed assets	206,517	120,187	326,704
Inventories	549,879	187,132	737,010
Trade receivables	595,094	-	595,094
Other receivables and prepayments	-	14,600	14,600
Amounts due from shareholders	10,100	81,894	91,994
Cash and cash equivalents	(240,207)	548,784	308,577
Trade payables	(188,916)	(75,407)	(264,323)
Other payables and accruals	(232,422)	-	(232,422)
Amounts due to shareholders	(1,957,502)	-	(1,957,502)
Total fair value of net assets acquired	(1,257,457)	877,189	(380,268)
Total consideration	1	2,301,004	2,301,005
Goodwill	1,257,458	1,423,815	2,681,273
Total consideration comprises:			
Share capital	-	2,301,004	2,301,004
Cash	1	-	1
Total	1	2,301,004	2,301,005

The book values of the subsidiaries acquired are equal to their fair value.

The net cash inflow from the above business combination is HK$308,577 which comprises of the cash and cash equivalents acquired.

Goodwill of HK$2,681,273 has been recognised on acquisition and its attributable to future operating synergies from the combination.

If those acquisitions had occurred on 1 January 2011, the directors estimated that Group's revenue and loss for the year ended 31 December 2011 would have been HK$14,830K and HK$7,764K respectively.

23. COMMITMENTS UNDER OPERATING LEASES

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

	2011	2010
	HK$	*HK$*
Not later than one year	1,951,048	1,235,000
Later than one year but less than five years	-	1,162,000
	1,951,048	2,397,000

24. FINANCIAL INSTRUMENTS 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 instruments at the balance sheet date:

	2011	2010
	HK$	*HK$*
	Loan and receivables	**Loan and receivables**
Financial assets		
Inventories	999,914	-
Trade receivables	175,182	-
Other receivables	104,510	22,511
Amount due from shareholders	80,277	98,051
Cash and cash equivalents	2,270,849	10,152,313
	3,630,732	10,272,875
	Other financial liabilities	**Other financial liabilities**
Financial liabilities		
Trade payables	840,857	-
Other payables	370	200
	841,227	200

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. The amounts presented in the balance sheet are net of allowances for impairment of doubtful receivables, 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:

	2011	**2010**
	HK$	***HK$***
Inventories	999,914	-
Trade receivables	175,182	-
Other receivables and prepayments	104,510	22,511
Amount due from shareholders	80,277	98,051
Cash and cash equivalents	2,270,849	10,152,313
	3,630,732	10,272,875

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$22,708 (2010: HK$ 101,523). 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. The contractual cash flows of financial liabilities are considered to be equal to their carrying amount in the balance sheet, and the maturities are all expected to be within one year.

Currency risk management

The Group is exposed to currency risk on financial assets of HK$243,829 (2010: HK$9,512,026) that are denominated in currencies other than Hong Kong dollars.

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

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

Under this assumption, with a 10% strengthening or weakening of HK$ against all exchange rates, loss before taxation would have increased or decreased respectively by US$102,218.

25. CAPITAL MANAGEMENT

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

The Groups' capital structure currently represents the equity attributable to the shareholders together with the cash and cash equivalents. The structure is reviewed on a quarterly basis to ensure that an appropriate level of gearing is being used. The Group currently does not have any external borrowings.

26. SHARE BASED COMPENSATION

In accordance with IFRS 2 Share-based Payments, the fair value of shares or options granted is recognised as personnel costs with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period during which the recipient becomes unconditionally entitled to payment unless forfeited or surrendered. The fair value of share options granted is measured using the Black-Scholes model, each taking into account the terms and conditions upon which the grants are made. The amount recognised as an expense is adjusted to reflect the best available estimate of the number of options that are expected to become exercisable. None of the Group plans feature any options for cash settlements.

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

	31 December 2011	
	Number of options	**Average exercise price**
		GBP
Outstanding at 10 February 2010		
Granted	72,161	0.33
Lapsed	-	-
Forfeited by option holder	-	-
Outstanding at 31 December 2010	**72,161**	**0.33**
Exercisable at 31 December 2010	72,161	0.33

As the Company was just admitted to the PLUS market in December 2010, it is not expected that the outstanding options will vest within one year.

In 2010, the compensation cost with respect to the outstanding plan, which are equity settled instruments, was minimal and no expenses were recognised in the income statement.

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

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

During the year ended 31 December 2011, there were no share options granted.