

31 May 2017

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

Final audited results for the year ended 31 December 2016

MiLOC Group Limited (NEX: ML.P), the NEX Exchange quoted pharmaceutical and healthcare group, is pleased to announce its audited consolidated financial statements for the year ended 31 December 2016.

Key financial highlights:

- Revenue for the year ended 31 December 2016: HK\$10,889K (2015: HK\$8,307K)
- Loss for the year: HK\$11,489K (2015: HK\$17,058K)
- The basic and diluted loss per share for the year: HK\$0.17 (2015: HK\$0.26)
- The Group’s cash position as at 31 December 2016: HK\$3,045K (2015: HK\$1,244K)

Chairman’s Statement

I am very pleased to report the 2016 financial year results for MiLOC Group Limited.

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

Review of significant activities

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

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

(a) Private Placings

In 2016, the Group raised HK\$8.8 million through private placings. The proceeds of these subscriptions have been applied towards several activities of the Company, including the renovation of the Medical Centre in Jordan as well as the TCM PLUS range of skincare products as mentioned above (Please refer to Note 19 for details of private placings).

(b) Significant distribution agreement

In January 2016, MiLOC Pharmaceutical (HK) Limited (“MiLOC Pharmaceutical”), a subsidiary of the Company entered into a significant distribution agreement with a Taiwan based distributor relating to the marketing and distribution of the MiLOC Pharmaceutical’s TCM PLUS skincare products in Taiwan. The Distributor has made good progress and we anticipate that all anticipated targets will be met. We are satisfied that all payments that are due to MiLOC Pharmaceutical from it under the Distribution Agreement will be met and we look forward to a successful and profitable relationship with the Distributor.

(c) Significant Endorsement Agreement and Commission Agreement

On 1 July 2016, one of the Group's wholly owned subsidiaries MiLOC Pharmaceutical (HK) Limited, entered into agreements to collaborate and work together with Kwok Fu Shing also known as Aaron Kwok, a well-known and successful singer, dancer and actor in Asia ("the Artist"), with respect to the design, content, promotion and marketing of a range of TCM hair care products, which contain traditional Chinese herbal ingredients ("the Products").

The proposed Chinese and English logos in respect of the Products have been confirmed by the Parties. Applications for registration of the Chinese and English Trademarks have been made in Mainland China, Hong Kong and Taiwan. The bottling design and ingredients of the Products have been finalised. It is intended that the sample products be provided to our potential distributors before distribution agreements for the various countries are in place. The Company will also be pursuing marketing activities and partnerships to ensure maximum media exposure of the products, which includes both online and offline marketing.

(d) Convertible Bond

On 19 July 2016, the Company entered into an agreement to issue an unsecured convertible bond amounting to USD\$650,000 (approximately £482,207). The maturity date is 18 January 2018 and the coupon rate is 0% per annum for the first twelve months, and 6% per annum thereafter. The redemption price is USD\$669,500, being a 3% premium over the principal amount. Further details are disclosed in note 21.

Financial review

(i) Revenue, gross profit and other revenue

The Group's revenue for the year ended 31 December 2016 amounted to HK\$10,889K which represented a 31% increase as compared to the year ended 31 December 2015. This was mainly due to increase of sales on skincare products. The Group's revenue for the year included sales of TCM that amounted to HK\$3,354K (2015: HK\$1,650K) and revenue from its clinic operations that amounted to HK\$7,535K (2015: HK\$6,657K). The Group's gross profit and gross profit margin for the year ended 31 December 2016 amounted to HK\$5,846K and 54% (2015: HK\$4,174K and 50%) respectively. The increase in gross profit margin was the result of a revised entry of impairment on inventories provided in 2015. The Group's other revenue for the year ended 31 December 2016 amounted to HK\$323K, an increase of 15% compared to the year ended 31 December 2015.

(ii) Operating expenses

The Group's distribution costs for the year ended 31 December 2016 amounted to HK\$739K which decreased by 79% as compared to the year ended 31 December 2015. It was mainly due to a one-off expense on designing for TCM PLUS series products in the year ended 31 December 2015. The Group's administrative expenses for the year ended 31 December 2016 were HK\$16,595K compared to HK\$14,024K for the year ended 31 December 2015, an increase of 18%.

(iii) Loss and loss per share

The Group's loss for the year amounted to HK\$11,489K (2015: HK\$17,058K). As a result, the Group's basic and diluted loss per share for the year was HK\$0.17 (2015: HK\$0.26).

The Directors do not recommend the payment of a dividend.

(iv) Balance sheet items

The Group's tangible fixed assets as at 31 December 2016 amounted to HK\$1,988K which mainly comprised leasehold improvements, furniture and fixtures and office equipment. The Group's tangible

fixed assets increased by HK\$1,969K compared with HK\$19K as at 31 December 2015 mainly due to the company re-decorate the Jor1 clinic.

The Group's other intangible assets as at 31 December 2016 amounted to HK\$4,643K which represented a decrease of HK\$357K compared with HK\$5,000K as at 31 December 2015 due to an amortisation for the year.

The Group's goodwill as at 31 December 2016 was valued at HK\$926K which represented a decrease of HK\$497K compared with HK\$1,423K as at 31 December 2015 due to a recognised of impairment for goodwill of a subsidiary.

The Group's inventories as at 31 December 2016 amounted to HK7,924K with an increase of HK\$5,437K over the balance as at 31 December 2015. The increment mainly due to the Company's purchase and storage of skincare products to fulfill distributors' orders.

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

The Group's trade payables as at 31 December 2016 amounted to HK\$6,336K with an increase of HK\$5,836K over the balance as at 31 December 2015. The increment mainly due to the Company's purchase and storage of skincare products to fulfil distributors' orders.

The Group's cash and cash equivalents increased from HK\$1,244K as at 31 December 2015 to HK\$3,045K as at 31 December 2016. For details of these movements, please refer to the Group's cash flow statement included in the non-statutory group financial statements.

## Outlook

Over the last few years both Hong Kong and Mainland China have looked with increasing confidence to TCM products as a suitable and non-invasive alternative to Western medical treatments and/or as supplemental to them. The revived recognition of the value of TCM as a treatment in its own right is bringing it into the mainline for medical treatment.

This was anticipated and recognised by the Company when it originally listed and its sales are anticipated to grow at least in line with this revived recognition of the value of TCM. We informed you last year that the Company had expanded into skin care creams and cosmetics applying TCM products. That expansion is beginning to see fruit and the company is now actively promoting the TCM FMCG side of the business under the brand name of "TCM PLUS".

The TCM haircare product branding with Aaron Kwok is in progress and the Company will confirm the launch date in due course.

Our Board is at the same time actively exploring increases both in its outlets as well its channels for online and offline sales. It does anticipate a substantial increase in sales over the coming years.

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

Chow Ching Fung  
Chairman

The financial information in this announcement is derived from the Group's audited consolidated financial statements for the year ended 31 December 2016 which are available at the Company's

website [www.miloc.com](http://www.miloc.com). The Directors of the Company accept responsibility for the contents of this announcement.

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MiLOC Group Limited  
Consolidated Statement of Comprehensive Income  
For the year ended December 2016

	Notes	2016	2015
		HK\$	HK\$
From continuing operations			
Revenue	3	10,889,218	8,307,122
Cost of sales		(5,043,268)	(5,202,713)
Gross profit		5,845,950	3,104,409
Other revenue	3	323,161	280,296
Distribution costs		(738,874)	(3,447,493)
Administrative expenses		(16,594,915)	(14,023,696)
Foreign exchange gain/ (loss), net		14,971	(21,988)
Operating loss	4	(11,149,706)	(14,108,472)
Impairment loss for intangible asset and goodwill		(497,278)	(2,823,815)
Finance costs	5	158,086	(2)
Interest income		57	38
Loss before taxation		(11,488,841)	(16,932,251)
Taxation	6	-	(125,336)
Loss for the for year		(11,488,841)	(17,057,587)
Other comprehensive income		-	-
Total comprehensive result for the year		<b>(11,488,841)</b>	<b>(17,057,587)</b>
Attributable to:			
The equity holders of the parent entity		(11,488,841)	(17,049,328)
Non-controlling interests		-	(8,259)
Loss per share – from continuing operations (HK\$)		(11,488,841)	(17,057,587)
Basic	9	(0.17)	(0.26)
Diluted	9	(0.17)	(0.26)

MiLOC Group Limited  
Consolidated Statement of Financial Position  
As of 31 December 2016

		As at 31 December 2016	As at 31 December 2015
	Notes	HK\$	HK\$
<b>Assets</b>			
Non-current assets			
Fixed assets	10	1,987,803	19,493
Other intangible assets	11	4,642,857	5,000,000
Goodwill	12	925,871	1,423,149
		7,556,531	6,442,642
Current assets			
Inventories	14	7,923,958	2,487,414
Trade receivables	15	235,748	250,735
Other receivables and prepayments	16	899,173	2,072,974
Cash and cash equivalents	18	3,045,423	1,243,398
		12,104,302	6,054,521
<b>Total assets</b>		<b>19,660,833</b>	<b>12,497,163</b>
<b>Equity and liabilities</b>			
Equity			
Share capital	19	551,114	529,242
Share premium		53,364,884	44,261,756
Retained earnings		(50,143,860)	(38,655,019)
Total equity		3,772,138	6,135,979
Liabilities			
Current liabilities			
Trade payables		6,335,533	499,615
Other payables and accruals	20	2,555,882	3,750,203
Amounts due to directors	17	2,111,366	2,111,366
		11,002,781	6,361,184
Non-current liabilities			
Borrowings	21	4,885,914	-
Total liabilities		15,888,695	6,361,184
<b>Total equity and liabilities</b>		<b>19,660,833</b>	<b>12,497,163</b>

MiLOC Group Limited  
Consolidated Statement of Cash Flows  
For the year ended 31 December 2016

	Notes	As at 31 December 2016	As at 31 December 2015
		HK\$	HK\$
<b>OPERATING ACTIVITIES</b>			
Cash used in operations	21	(9,738,073)	(11,533,246)
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed assets		(2,470,816)	(14,094)
Acquisition of subsidiaries, net of cash acquired		-	(900,000)
<b>Net cash used in investing activities</b>		<b>(2,470,816)</b>	<b>(914,094)</b>
<b>FINANCING ACTIVITIES</b>			
Issuance of shares		9,125,000	9,343,907
Issuance of convertible bonds		5,044,000	-
Interest		(158,086)	-
Profits tax payment		-	(685,337)
<b>Net cash generated from financing activities</b>		<b>14,010,914</b>	<b>8,658,570</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>1,802,025</b>	<b>(3,788,770)</b>
Cash and cash equivalents at beginning of year		<b>1,243,398</b>	<b>5,032,168</b>
Cash and cash equivalents at end of year		<b>3,045,423</b>	<b>1,243,398</b>

### 3. REVENUE AND SEGMENT INFORMATION

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

	2016	2015
	HK\$	HK\$
Revenue		
Sales of TCM healthcare and skincare products	3,353,699	1,650,494
Provision of TCM healthcare services	7,535,519	6,656,628
	10,889,218	8,307,122
Other revenue		
Management fee	253,000	253,726
Others	70,161	26,570
	323,161	280,296
Total revenue and other revenue	11,212,379	8,587,418

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

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

#### (a) Segment results, assets and liabilities

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

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

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

Segment assets include all tangible, intangible assets and current assets with the exception of



deferred tax assets and other corporate assets. Segment liabilities include trade payables, other payables and accruals attributable to operating activities of the individual segments.

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

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

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2016 and 2015 is set out below:

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

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

For the year ended 31 December 2015					
	Sale of TCM Healthcare and Skincare Products		TCM Healthcare Services		Total
	HK\$		HK\$		HK\$
<b>Revenue - External sales</b>	1,650,495		6,656,627		8,307,122
<b>Cost of sales</b>	(589,263)		(3,543,830)		(4,133,093)
<b>Gross profit</b>	1,061,232		3,112,797		4,174,029
<b>Other revenue</b>	15,045		265,251		280,296
<b>Distribution costs</b>	(3,383,415)		(64,078)		(3,447,493)
<b>Administrative expenses</b>	(4,808,514)		(3,843,673)		(8,652,187)
Segment loss	(7,115,653)		(529,703)		(7,645,356)
General group operating costs (including professional fees and directors remuneration)					(5,393,498)
Operating loss					(13,038,854)
Impairment loss for intangible asset and goodwill					(2,823,815)
Impairment loss for inventories					(1,069,620)
Finance costs					-
Interest income					38
Loss before taxation					(16,932,251)

Taxation				(125,336)
Loss for the year				(17,057,587)

For the year ended 31 December 2015				
	Sale of TCM Healthcare and Skincare Products	TCM Healthcare Services		Total
	<i>HK\$</i>	<i>HK\$</i>		<i>HK\$</i>
Additions of				
- Fixed assets	-	14,094		14,094
Depreciation of				
- Fixed assets	26,665	101,843		128,508
<b>Segment assets</b>	8,552,325	2,941,723		11,494,048
<b>Segment liabilities</b>	4,102,767	475,807		4,578,574

(b) Reconciliation of reportable segment assets and liabilities

	As at 31 December 2016	As at 31 December 2015
	<i>HK\$</i>	<i>HK\$</i>
<b>Assets</b>		
Reportable segment assets	19,614,180	11,494,048
Unallocated head office and corporate assets	46,653	1,003,115
Consolidated total assets	19,660,833	12,497,163
<b>Liabilities</b>		
Reportable segment liabilities	10,772,240	4,578,574
Current tax payable	-	-
Unallocated head office and corporate liabilities	5,116,455	1,782,610
Consolidated total liabilities	15,888,695	6,361,184

(c) Geographic information

In addition to this, the board also considers segmental information from a geographic perspective. The vast majority of the Group's operations up to the date of the statement of financial position have been located in Hong Kong, therefore, significantly all of the Groups' revenue is attributable to Hong Kong.

#### 4. OPERATING LOSS

Operating loss is arrived at after charging the following:

	2016		2015
	HK\$		HK\$
Auditor's remuneration	426,479		396,820
Depreciation of fixed assets	500,431		128,507
Impairment for fixed assets	-		33,005
Impairment for inventories (included within cost of sales)	-		1,069,620
Operating lease charges: minimum lease payments for properties	3,354,899		3,019,317
Exchange loss	(14,972)		21,988

#### 5. FINANCE COSTS

	2016		2015
	HK\$		HK\$
Others	-		2
Fair value movement on derivative (note 21)	(349,098)		-
Interest	191,012		-
	(158,086)		2

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

#### 6. TAXATION

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

	2016		2015
	HK\$		HK\$
Deferred tax asset b/f	-		125,000
Written down of the deferred tax asset	-		(125,000)
Deferred tax asset c/f	-		-

The deferred tax asset relates to the expected future utilisation of tax losses against future taxable profits amounting to approximately HK\$Nil (2015: HK\$Nil). The amount of losses that are available but in respect of which no deferred tax asset has been recognised amounted to HK\$24,335,351 (2015:

HK\$16,819,484). No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

Taxation in the consolidated statement of comprehensive income represents:

	2016	2015
	HK\$	HK\$
Hong Kong corporate income tax		
- Provision for the current year	-	-
- Under/(Over)-provision in the previous year	-	336
- Deferred tax – relating to tax loss	-	-
- Write down of the deferred tax assets	-	125,000
	-	<b>125,336</b>

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

	2016	2015
	HK\$	HK\$
Loss before taxation	11,488,841	17,057,587
Loss multiplied by standard rate of corporation tax in Hong Kong of 16.5%	(1,895,659)	(2,814,501)
Effect of:		
Increase in unrecognized losses	1,895,659	2,814,501
Under/(Over-provision) in the previous year	-	336
Tax loss derecognised/(recognised) for deferred tax purpose	-	125,000
	-	<b>125,336</b>

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

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

	2016		2015
	HK\$		HK\$
Salaries, wages and other benefits	2,620,842		2,206,339
Contributions to defined contribution plan	123,708		102,331
	<b>2,744,550</b>		<b>2,308,670</b>

**8. COMPENSATION OF KEY MANAGEMENT PERSONNEL**

	2016		2015
	HK\$		HK\$
Salaries and other short-term benefits:			
-Salaries and allowances	3,280,000		2,680,000
-Retirement scheme contribution	30,000		30,000
	<b>3,310,000</b>		<b>2,710,000</b>

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

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

**9. EARNING PER SHARE – BASIC**

Basic

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

	2016		2015
	HK\$		HK\$
Losses attributable to equity holders of parent entity	(11,488,841)		(17,049,327)
Number of shares			
Weighted average number of ordinary shares in issue	69,633,964		66,557,973
Loss per share	0.17		0.26

## 10. FIXED ASSETS

	Leasehold improvements	Furniture & fixtures	Office equipment	Total
	HK\$	HK\$	HK\$	HK\$
Cost				
At 1 January 2015	296,650	198,675	701,655	1,196,980
Additions	-	-	14,094	14,094
At 31 December 2015	296,650	198,675	715,749	1,211,074
Accumulated Depreciation				
At 1 January 2015	206,512	153,968	669,588	1,030,068
Charge for the year	59,330	39,687	29,491	128,508
Impairment for the year	30,808	2,197	-	33,005
At 31 December 2015	296,650	195,852	699,079	1,191,581
Net book value				
At 31 December 2015	-	2,823	16,670	19,493
Cost				
At 1 January 2016	296,650	198,675	715,749	1,211,074
Written off	(296,650)	(135,535)	(440,979)	(873,164)
Additions	2,308,039	16,947	145,830	2,470,816
At 31 December 2016	2,308,039	80,087	420,600	2,808,726
Accumulated Depreciation				
At 1 January 2016	296,650	195,852	699,079	1,191,581
Written off	(296,650)	(135,535)	(440,979)	(873,164)
Charge for the year	463,269	6,317	32,920	502,506
At 31 December 2016	463,269	66,634	291,020	820,923
Net book value				
At 31 December 2016	1,844,770	13,453	129,580	1,987,804

## 11. OTHER INTANGIBLE ASSETS

	Patent of Rorrigo	Licence of quality management system for TCM clinic	Total
	HK\$	HK\$	HK\$
Cost			
At 1 January 2015	5,000,000	3,420,000	8,420,000
Disposal	-	(3,420,000)	(3,420,000)
At 31 December 2015	5,000,000	-	5,000,000
Accumulated amortisation			
At 1 January 2015	-	2,020,000	1,786,667
Impairment for the year	-	1,400,000	1,400,000
Disposal	-	(3,420,000)	(3,420,000)
At 31 December 2015	-	-	-
Net book value			
At 31 December 2015	5,000,000	-	5,000,000
Cost			
At 1 January 2016	5,000,000	-	5,000,000
At 31 December 2016	5,000,000	-	5,000,000
Accumulated amortisation			
At 1 January 2016	-	-	-
Amortisation for the year	357,143	-	357,143
At 31 December 2016	357,143	-	357,143
Net book value			
At 31 December 2016	4,642,857	-	4,642,857



*Patent of Rorrigo:*

In 2010, the Group acquired the intellectual property rights to Rorrigo, a TCM for the treatment of influenza viruses, including the Influenza A virus and its sub-type virus, pandemic Influenza A (H1N1) or Swine flu. On 27 July 2011, the State Intellectual Property Office of the PRC granted the Rorrigo Patent (the “Patent”).

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

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

*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 fully impaired in the year ended 31 December 2015 on the basis of a value in use calculation, a five year pre-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 rate of the relevant markets.

## 12. GOODWILL

	2016 HK\$	2015 HK\$
Balance at the beginning of the year	1,423,149	2,846,964
Additions	-	-
Impairment for the year	(497,278)	(1,423,815)
Balance at the end of the year	925,871	1,423,149

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

At 31 December 2015 the carrying value of goodwill related to two cash generating units, a store and a clinic in the following ratio (7:13). The carrying value of Goodwill relating to the Store at 31 December 2015 was HK\$497,278, during the year the recoverable amount of this asset was assessed to be HK\$0 and the assets associated with this cash generating unit have been written down to HK\$0 on the basis of the value in use calculation the Goodwill allocated to the store was written off during the period. This amount represented all the carrying value attributable to the cash generating unit. No impairment of the carrying value of the clinic goodwill of HK\$925,871 was required. The recoverable amount of the goodwill is determined 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. A sensitivity analysis has been performed on these calculations in respect of a decrease of growth rates. No impairment would be required if the growth rate were to decrease by 25%.

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

	2016	2015
Gross margin	51%	53-63%
Growth rate	5%	10%
Discount rate	17%	17%

## 13. INTEREST IN SUBSIDIARIES

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

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

MiLOC Biotechnology Limited	6 November 2009, BVI	100%	Professor Chow Ching Fung and ONG, Ban Poh Michael	Research and development
Interests held indirectly by the Company:				
Cash generating unit: MiLOC Pharmaceutical (HK) Ltd	9 March 2011, HK	100%	N/A	Retailing and wholesaling of healthcare and skincare and related products
MiLOC Clinics Limited	15 February 2011, BVI	100%	N/A	Receipt of royalty fee from clinics
MiLOC Medical Limited	24 January 2011, HK	100%	N/A	Provision of medical services
MiLOC Medical Jor1 Limited	25 September 2007, HK	100%	Golden Ace Holdings Limited	Provision of Chinese medical services
MiLOC Clinics Jor2 Limited	19 July 2010, HK	100%	Chan Chi Hang	Provision of Chinese medical services
MiLOC Store Limited	18 October 2010, HK	100%	Golden Ace Holdings Limited	Retailing and wholesaling of healthcare and related products
上海殿舜媚生物科技有限公司	15 November, 2016, PRC	100%	N/A	Retailing and wholesaling of haircare products
Non-cash generating unit: Smart Falcon Limited	3 December 2009, BVI	100%	He Yu and Professor He Zhong Sheng	Holding company of intellectual property rights, including the Rorricon patent
MiLOC Clinics (HK) Limited	15 March 2011, BVI	100%	N/A	Dormant
Golden Ace Holdings Limited	28 September 2010, BVI	100%	LEE Mun Keat	Investment holding company
MiLOC Pharmaceutical (Macau) Limited	9 June 2011, Macau	100%	N/A	Retailing, wholesaling, import and export of TCM products

On 15 November 2016, the Company established a subsidiary 上海殿舜媚生物科技有限公司

#### 14. INVENTORIES

The inventories as at 31 December 2016 and 2015 are as follows.

	2016	2015
	HK\$	HK\$
Finished goods	7,923,958	3,557,034
Provision for the year	-	(1,069,620)
	7,923,958	2,487,414

The inventories recognised as an expense during the year amounted HK\$907,200(2015: HK\$606,353).

#### 15. TRADE RECEIVABLES

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

#### 16. OTHER RECEIVABLES AND PREPAYMENT

	2016	2015
	HK\$	HK\$
Deposits paid	745,860	773,450
Other receivables	146,760	74,348
Prepayment	6,553	1,225,176
	899,173	2,072,974

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

#### 17. RELATED PARTY TRANSACTIONS

Transactions between the Group and its related parties as at 31 December 2016 and 2015 were as follow:

	2016	2015
	HK\$	HK\$
Amount due to directors	2,111,366	2,111,366

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

Apart from the above amount from/to the related companies, significant transactions between the Group and its related parties for the 31 December 2016 and 2015 were as follows:

	2016	2015
	HK\$	HK\$
Purchases from Green Health Supplement International Company	341,026	605,723

At 31 December 2016, the trade payable to Green Health Supplement International Company is HK\$284,771 (2015: HK\$228,587)

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

## 18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2016 and 2015 comprise:

	2016	2015
	HK\$	HK\$
Cash at bank and in hand	3,045,423	1,243,398

## 19. SHARE CAPITAL

	2016	2015
	HK\$	HK\$
Authorised, 100,000,000 ordinary shares of US\$0.001 each		
Allotted and fully paid: No. of shares:		
At the beginning and end of the year	68,011,248	65,269,042
Issuance of shares	2,804,041	2,742,206
At the end of the year	70,815,289	68,011,248
Amount:		
At the beginning and end of the year	529,242	507,853
Issuance of shares	21,872	21,389
At the end of the year	551,114	529,242

On 24 December 2015, the Company entered into a total of two agreements to issue 296,123 new US\$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK\$1,000,000. The Company also agreed to pay a referral fee of 5% of the fundraising amount to a consultant of the Company by allotting and issuing a total of 11,241 new ordinary shares of US\$0.001 each at a price of 35.0p per share. These placings and allotments were completed during June 2016.

On 28 January 2016, the Company entered into a total of two agreements to issue 155,807 new US\$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK\$500,000. The Company also agreed to pay a referral fee of 5% of the fundraising amount to a consultant of the Company by allotting and issuing a total of 7,790 new ordinary shares of US\$0.001 each at a price of 35.0p per share. These placings and allotments were completed during June 2016.

On 24 March 2016, the Company entered into an agreement to issue 629,320 new US\$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK\$2,000,000. This placing was completed during April 2016.

On 25 April 2016, the Company entered into an agreement to issue 88,731 new US\$0.001 ordinary shares at the placing price of 30.0p per share to raise approximately HK\$300,000. This placing was completed during June 2016.

On 12 and 17 May 2016, the Company entered into a total of two agreements to issue 1,551,593 new US\$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK\$5,000,000. The Company also agreed to pay a referral fee of 5% of the fundraising amount to a consultant of the Company by allotting and issuing a total of 63,436 new ordinary shares of US\$0.001 each at a price of 35.0p per share. These placings and allotments were completed during June 2016.

## 20. OTHER PAYABLES AND ACCRUALS

	2016	2015
	HK\$	HK\$
Receipts in advance	310,773	1,590,477
Accruals	2,245,109	2,159,726
	2,555,882	3,750,203

## 21. BORROWINGS

	2016	2015
	HK\$	HK\$
Due within one year	-	-
	-	-
Due are more than one year but less than two years	4,885,914	-
	4,885,914	-

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

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

The conversion right is contingent on whether the company achieves a listing on the main market of the London Stock Exchange. If this is achieved then the note holder can convert the principal at a 20% discount to the opening share price on the main market.

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

At 31 December 2016 management considered listing was unlikely to be achieved and therefore the fair value of the derivative was £nil. The fair value movement on the derivative is shown as part of finance costs.

## 22. CASH USED IN OPERATIONS

Reconciliation of loss before taxation to cash used in operations:

	2016	2015
	HK\$	HK\$
Loss before taxation	(11,488,841)	(16,932,251)
Adjustments:		
Depreciation of fixed assets	502,506	128,508
Amortisation of intangible assets	357,143	-
Fixed asset written off	-	33,006
Impairment loss for intangible asset and goodwill	497,278	2,823,815
Operating cash flow before changes in working capital	(10,131,914)	(13,946,922)
Increase in inventories	(5,436,544)	(1,146,832)
Decrease/(increase) in trade receivables	14,987	(48,557)
Decrease in other receivables and prepayments	1,173,801	2,812,866
Increase/(decrease) in trade payables	5,835,918	(542,124)
(Decrease)/increase in other payables and accruals	(1,194,321)	1,338,323
Decrease in amount due to shareholders	-	-
Cash used in operations	(9,738,073)	(11,533,246)

## 23. COMMITMENTS UNDER OPERATING LEASES

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

	2016	2015
	HK\$	HK\$
Not later than one year	1,734,000	2,438,400
Later than one year but less than five years	1,228,500	448,900
	2,962,500	2,887,300

## 24. FINANCIAL ASSETS AND RISK

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

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

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

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

	2016	2015
	HK\$	HK\$
	Loan and receivables	Loan and receivables
Financial assets		
Trade receivables	235,748	250,735
Other receivables	146,760	74,348
Cash and cash equivalents	3,045,423	1,243,398
	3,427,931	1,568,481
	Other financial liabilities	Other financial liabilities
Financial liabilities		
Trade payables	6,335,533	499,615
Borrowings	4,885,914	-
Amount due to directors	2,111,366	2,111,366
Accruals	2,245,109	2,159,726
	15,577,922	4,770,707

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

### Credit risk

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



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

	2016	2015
	HK\$	HK\$
Trade receivables	235,748	250,735
Other receivables	146,760	74,348
Cash and cash equivalents	3,045,423	1,243,398
	3,427,931	1,568,481

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\$30,454 (2015: HK\$12,434). A corresponding decrease would have an equal but opposite effect.

#### Liquidity risk

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

	2016	2015
	HK\$	HK\$
Financial liabilities due within one year		
Trade payables	6,335,533	499,615
Amount due to directors	2,111,366	2,111,366
Accruals	2,245,109	2,159,726
	10,692,008	4,770,707

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

#### Currency risk management

The Group is exposed to currency risk on financial assets of HK\$976 (2015: HK\$976) that are denominated in currencies other than Hong Kong dollars.

The Group operates mainly out of Hong Kong and its operations are denominated in Hong

Kong dollar and a majority of the assets and liabilities are in that currency. The only fluctuation to the reporting currency of HK\$ would be in relation to the translation at the year end to the reporting currency.

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

Under this assumption, with a 10% strengthening or weakening of HK\$ against all exchange rates, loss before taxation would have increased or decreased respectively by US\$13 (2015: US\$13).

## 25. CAPITAL MANAGEMENT

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

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

## 26. SHARE BASED COMPENSATION

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

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

During the year ended 31 December 2016 and 2015, there were no share options granted.

## 27. POST BALANCE SHEET EVENT

### **Private Placings**

The Company entered into placing agreements to issue 967,551 new US\$0.001 ordinary shares at a placing price of 28.5p per share to raise approximately HK\$2,800,401. The placing and allotment are expected to be completed on 31 May 2017.