MiLOC GROUP LIMITED

DIRECTORS' REPORT AND NON-STATUTORY GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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
CORPORATE ADVISOR	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London NW1 2EP
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

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MiLOC GROUP LIMITED

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

The chairman presents his statement for the year ended 31 December 2012.

Dear Shareholder,

I am pleased to report the results of the Group for the year ended 31 December 2012.

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 2012: HK$15,503K (2011: HK$10,525K)
Loss for the year: HK$13,906K (2011: HK$7,973K)
Impairment of intangible assets in year $10,980K (2011: Nil)
The basic and diluted loss per share for the year: HK$0.16 (2011: HK$0.14)
The Group's net cash position as at 31 December 2012: HK$2,881K (2011: HK$2,271K)

Review of significant activities

On 19 July 2012, MiLOC Clinics Jor2 Limited established a branch office in Hong Kong with its branch name registered as "Jor2 Central" and the branch started its operation as a medical center on 1 August 2012. MiLOC Clinics Jor2 Limited was acquired by MiLOC Clinics Limited in 2011 and MiLOC Clinics Limited is the JV Company of the Group's wholly-owned subsidiary MiLOC Medical Limited.

On 31 October 2012, the recognised investment exchange formerly known as PLUS Stock Exchange plc changed its name to ICAP Securities & Derivatives Exchange Limited and the PLUS-Listed Market and the PLUS-Quoted Market became, respectively, the ISDX Main Board and the ISDX Growth Market. The ISDX Main Board is a regulated market and the ISDX Growth Market is a multilateral trading Facility. The Company's ordinary shares are quoted on the ISDX Growth Market.

Subsequent events

On 8 January 2013, the Group entered into agreements to raise a total of £96,385.55 (approximately HK$1.2 million) before expenses (the "Placing") through a placing of 428,381 new ordinary shares of US$0.001 each in the share capital of the Company (the "Placing Shares"). The Placing Shares have been placed at 22.5p per share to a private investor and Kingsway Lion Spur Technology Limited (100% beneficially owned by SW Kingsway Capital Group Limited, a financial services company listed on the HKSE (stock code: 188)). The Placing Shares were issued, credited as fully paid and ranked *pari passu* in all respects with the existing ordinary shares of the Company. Following completion of the Placing, there is a total of 62,259,450 ordinary shares of the Company in issue.

On 8 May 2013, the Group entered into a franchise and management agreement with a TCM clinic in Tuen Mun, Hong Kong, for the provision of franchise and management services. This is the first franchise TCM clinic of the Group.

On 22 May 2013, the Group entered into a franchise and management agreement with a TCM clinic in Tai Po, Hong Kong, for the provision of franchise and management services. This is the second franchise TCM clinic of the Group.

Financial review

(i) Revenue and gross profit

The Group's revenue for the year ended 31 December 2012 amounted to HK$15,503K which represented 47.29% increase as compared to the year ended 31 December 2011. It was mainly attributable to the acquisitions made in 2011 which enabled the Group to further develop its TCM clinic operations and its distribution of TCM, part of which was acquired in 2011. The Group's revenue for the year included sales of TCM amounted to HK$4,238K (2011: HK$4,752K) and revenue from its clinic operation amounted to HK$11,265K (2011: HK$5,772K). The Group's gross profit and gross profit margin for the year ended 31 December 2012 amounted to HK$10,049K and 65% (2011: HK$4,686K and 45%) respectively. The gross profit margins for sales of TCM and clinic operation were 34% and 75% (2011: 31% and 56%) respectively.

(ii) Other revenue and operating expenses

The Group's other revenue for the year ended 31 December 2012 amounted to HK$1,387K which mainly included management fees of HK$843K and consultancy fee of HK$385K. The Group's other revenue was increased by 30% as compared to 2011 mainly due to additional management fee received. The Group's distribution costs for the year ended 31 December 2012 amounted to HK$374K which was consistent with the year ended 31 December 2011. The Group's administrative expenses for the year ended 31 December 2012 were HK$14,443K compared to HK$13,106K for the year ended 31 December 2011. This is principally due to the amortisation of intangible assets in the year of HK$1.5 million which was also largely consistent with the year ended 31 December 2011. The Group's operating loss increased significantly from HK$7,622K to HK$14,354K. The increase was mainly due to the impairment on intangible assets amounting to HK$11 million was recognised in 2012, which arise following a detailed review of the expected use of the intangible asset within the on-going business.

(iii) Loss and loss per share

The Group's loss for the year amounted HK$13,906K (2011: HK$7,973K). The loss was mainly attributable to the impairment and amortisation of intangible assets. As a result, the Group's basic and diluted loss per share for the year was HK$0.16 (2011: HK$0.14).

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 2012 amounted to HK$515K which mainly included leasehold improvements, furniture and fixtures and office equipment. The Group's tangible fixed assets decreased compared with HK$1,068K as at 31 December 2011. It was mainly due to leasehold improvement written off due to the relocation of the Company's office.

The Group's intangible assets as at 31 December 2012 amounted to HK$6,867K which has decreased by HK$12,533K as compared to HK$19,400K as at 31 December 2011. This was principally due to the impairment of the intangible assets of HK$11 million during the year.

The Group's goodwill as at 31 December 2012 amounted to HK$2,847K which was consistent with the amount as at 31 December 2011.

The Group's inventories as at 31 December 2012 was HK$804K which decreased by HK$196K as compared to the balance as at 31 December 2011. Inventories mainly included TCM and healthcare products purchased during the year.

The Group's trade payables as at 31 December 2012 amounted to HK$2,103K. The Group's trade payables increased significantly as compared to HK$841K as at 31 December 2011, which was in line with the development of the Group's distribution of TCM and healthcare products.

The Group's cash and cash equivalents increased from HK$2,271K as at 31 December 2011 to HK$2,881K as at 31 December 2012. 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 keep focusing 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
23 May 2013

MiLOC GROUP LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012.

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 2012 amounted to HK$15,503K which included sales of TCM amounted to HK$4,238K and revenue from its clinic operation amounted to HK$11,265K. The Group's loss for the year amounted to HK$13,906K. The basic and diluted loss per share for the year was HK$0.16. The Group's net cash position as at 31 December 2012 was HK$2,881K.

Financial highlights

	For the year ended 31 December 2012	For the year ended 31 December 2011
	HK$'000	***HK$'000***
Revenue	15,503	10,525
Gross profit	10,049	4,686
Gross profit margin	65%	45%
Administrative expenses	(14,443)	(13,106)
Impairment	(10,980)	-
Loss for the year	(13,906)	(7,973)
Loss per share – basic and diluted (HK$)	(0.16)	(0.14)

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 2012

Results and dividends

Loss after taxation for the year ended 31 December 2012 amounted to HK$13,906K (2011: HK$7,973K).

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

Post balance sheet events

On 8 January 2013, the Group entered into agreements to raise a total of £96,385.55 (approximately HK$1.2 million) before expenses (the "Placing") through a placing of 428,381 new ordinary shares of US$0.001 each in the share capital of the Company (the "Placing Shares"). The Placing Shares have been placed at 22.5p per share to a private investor and Kingsway Lion Spur Technology Limited (100% beneficially owned by SW Kingsway Capital Group Limited, a financial services company listed on the HKSE (stock code: 188)). The Placing Shares were issued, credited as fully paid and ranked *pari passu* in all respects with the existing ordinary shares of the Company. Following completion of the Placing, there now is a total of 62,259,450 ordinary shares of the Company in issue.

On 8 May 2013, the Group entered into a franchise and management agreement with a TCM clinic in Tuen Mun, Hong Kong, for the provision of franchise and management services. This is the first franchise TCM clinic of the Group.

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Directors

The directors who held office during the year were:

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' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

Directors' interests

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

	Number of ordinary shares held as at 31 December 2012	Number of ordinary shares held as at 31 December 2011
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	-	-

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 2012.

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 2012	Number of ordinary shares held as at 31 December 2011
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 2012, finance was improved by stricter working capital management in relation to the payment of creditors. By executing the business plan going forward, the Group anticipates that its principal sources of finance will comprise cash in the bank 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 28 June 2013 at 10am.

MiLOC GROUP LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

Substantial shareholders

As at 23 May 2013, 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	67.82%
Lim Yi Shenn	5,325,864	8.55%
Chow King Tung	5, 276,622	8.48%

(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 23 May 2013 and signed on its behalf.

Ong Ban Poh Michael
Director
23 May 2013

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 2012 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 numbered 1 to 27. 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 2012 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

23 May 2013

MiLOC Group Limited
Consolidated Statement of Comprehensive Income
For the year ended December 2012

	Notes	2012	2011
From continuing operations		*HK$*	*HK$*
Revenue	*3*	15,503,018	10,525,027
Cost of sales		(5,453,537)	(5,838,630)
Gross profit		10,049,481	4,686,397
Other revenue	*3*	1,386,776	1,062,925
Distribution costs		(373,532)	(365,294)
Administrative expenses		(14,443,376)	(13,105,870)
Foreign exchange gains		6,634	100,183
Operating loss before impairment	*4*	(3,374,017)	(7,621,659)
Impairment	*11*	(10,980,000)	-
Operating loss after impairment		(14,354,017)	(7,621,659)
Finance costs	*5*	(6,029)	(7,588)
Interest income		154	282
Loss before taxation		(14,359,892)	(7,628,965)
Taxation	*6*	453,400	(344,000)
Loss for the for year		(13,906,492)	(7,972,965)
Other comprehensive income		-	-
Total comprehensive result for the year		**(13,906,492)**	**(7,972,965)**
Attributable to:			
The equity holders of the parent entity		(10,182,920)	(8,552,716)
Non-controlling interests		(3,723,572)	579,751
		(13,906,492)	(7,972,965)
Loss per share – from continuing operations (HK$)			
Basic	*9*	(0.16)	(0.14)
Diluted	*9*	(0.16)	(0.14)

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

MiLOC Group Limited
Consolidated Statement of Financial Position
As of 31 December 2012

	Notes	As at 31 December 2012 HK$	As at 31 December 2011 HK$
Assets			
Non-current assets			
Fixed assets	*10*	514,813	1,067,964
Other intangible assets	*11*	6,866,667	19,400,000
Goodwill	*12*	2,846,964	2,846,964
Deferred tax assets	*6*	678,400	-
		10,906,844	23,314,928
Current assets			
Inventories	*14*	803,636	999,914
Trade receivables	*15*	347,894	175,182
Other receivables and prepayments	*16*	815,094	1,126,372
Amount due from shareholders	*17*	113,852	80,277
Cash and cash equivalents	*18*	2,880,735	2,270,849
		4,961,211	4,652,594
Total assets		**15,868,055**	**27,967,522**
Equity and liabilities			
Equity			
Share capital	*19*	481,046	481,046
Share premium		22,506,221	22,506,221
Retained earnings		(28,081,006)	(17,898,086)
Equity attributable to the parent entity		(5,093,739)	5,089,181
Non-controlling interests		13,557,183	17,280,755
Total equity		8,463,444	22,369,936
Liabilities			
Current liabilities			
Trade payables		2,102,721	840,857
Other payables and accruals	*20*	2,621,406	2,304,404
Amount due to shareholders	*17*	118	-
Amounts due to directors	*17*	2,111,366	2,108,325
Taxation payable		569,000	344,000
		7,404,611	5,597,586
Total equity and liabilities		**15,868,055**	**27,967,522**

Approved by the Board of Directors on 23 May 2013.

Signed on behalf of the directors

Ong Ban Poh Michael
Director

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

MiLOC Group Limited
Consolidated Statement of Changes in Equity
For the year ended 31 December 2012

	Notes	Share capital *HK$*	Share premium *HK$*	Retained earnings *HK$*	Total *HK$*	Non-controlling interests *HK$*	Total Equity HK$
At 1 January 2011		**481,046**	**22,506,221**	**(9,345,370)**	**13,641,897**	**-**	**13,641,89**
Comprehensive Income and Total Comprehensive Income							
Loss for the year		-	-	(8,552,716)	(8,552,716)	579,751	(7,972,96
Transactions with owners							
On acquisition of subsidiaries		-		-	-	16,701,004	16,701,00
At 31 December 2011 and 1 January 2012		**481,046**	**22,506,221**	**(17,898,086)**	**5,089,181**	**17,280,755**	**22,369,93**
Comprehensive Income and Total Comprehensive Income							
Loss for the year		-	-	(10,182,920)	(10,182,920)	(3,723,572)	(13,906,49
Transactions with owners							
At 31 December 2012		**481,046**	**22,506,221**	**(28,081,006)**	**(5,093,739)**	**13,557,183**	**8,463,44**

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

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

MiLOC Group Limited
Consolidated Statement of Cash Flows
For the year ended 31 December 2012

	Notes	2012	2011
		HK$	*HK$*
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	*21*	724,547	(7,129,885)
INVESTING ACTIVITIES			
Purchase of fixed assets		(169,266)	(1,052,850)
Proceed from disposal of fixed assets		60,480	-
Acquisition of subsidiaries, net of cash acquired		-	308,577
Interest received		154	282
Net cash used in investing activities		(108,632)	(743,991)
FINANCING ACTIVITIES			
Interest paid		(6,029)	(7,588)
Net cash used in financing activities		(6,029)	(7,588)
Net increase/(decrease) in cash and cash equivalents		609,886	(7,881,464)
Cash and cash equivalents at beginning of year		**2,270,849**	**10,152,313**
Cash and cash equivalents at end of year		**2,880,735**	**2,270,849**

Summary of major non-cash transactions:

During the year ended 31 December 2012, the impairment on the Group's intangible asset amounted HK$ 10,980,000.

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

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

1. CORPORATE INFORMATION

MiLOC Group Limited (the 'Company') was incorporated in the Cayman Islands on 10 February 2010. Its registered office is The R&H Trust Co., Limited, One Capital Place, George Town, P.O. Box 897, Cayman Islands. The nature of the Company's operations and its principal activities are to act as the holding company of a group engaged in (i) the 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 22 May 2013 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$13.91 million in the year ended 31 December 2012 although this included non-cash items of approximately HK$12.89m. At the balance sheet date, the Group had cash balances of HK$2.88 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 2013 expansion of the Group's hospital and clinic network and the progress and sale of the Group's TCM, 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') for the year ended 31 December 2012 (subsidiaries detailed further in Note 13). The parent company's financial information not required to be presented under the laws of the Cayman Islands.

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.

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

Revenue recognition

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 from 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"). The functional currency of the individual group entities and presentational currency of the group financial statements is the Hong Kong Dollar ("HK$").

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 26 for details.

Related parties

A related party is defined as follows:

(1) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(2) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (1); and
- (vii) a person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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	**Effective for annual periods beginning on or after**
Amendment to IFRS 7 – *Offsetting Financial Assets and Financial Liabilities*	1 January 2013
Amendment to IFRS 1 – *Government Loans*	1 January 2013
IAS 19 (revised 2011) *Employee Benefits*	1 January 2013
IFRS 10 *Consolidated Financial Statements*	1 January 2013
IFRS 11 *Joint Arrangements*	1 January 2013
IFRS 12 *Disclosures of Interests in Other Entities*	1 January 2013
IFRS 13 *Fair Value Measurement*	1 January 2013
IAS 27 (revised 2011) *Separate Financial Statements*	1 January 2013
IAS 28 (revised 2011) *Investments in Associates and Joint Ventures*	1 January 2013
Annual Improvements 2009-2011 Cycle	1 January 2013
Amendment to IAS 32 – *Offsetting Financial Assets and Financial Liabilities*	1 January 2014
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
IFRS 9 *Financial Instruments*	1 January 2015

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 out earlier in this note. 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:

	2012	2011
	HK$	*HK$*
Revenue		
Sales of TCM and healthcare products	4,238,188	4,752,253
Provision of clinical services	11,264,830	5,772,774
	15,503,018	10,525,027
Other revenue		
Consultancy fee	385,000	450,000
Management fee	843,414	334,817
Income for holding healthcare conference	12,839	114,000
Others	145,523	164,108
	1,386,776	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 2012 and 2011 is set out below:

	For the year ended 31 December 2012		
	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	4,238,188	11,264,830	15,503,018
Segment results	(8,567,256)	(3,036,602)	(11,603,858)
Unallocated income and expenses			(2,750,159)
Operating loss			(14,354,017)
Finance costs			(6,029)
Interest income			154
Loss before taxation			(14,359,892)
Taxation			453,400
Loss for the year			(13,906,492)

	For the year ended 31 December 2012		
	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			
- Fixed assets	8,160	161,106	169,266
Amortisation of			
- intangible assets	1,553,333	-	1,553,333
Impairment of			
- intangible assets	10,980,000	-	10,980,000
Depreciation of			
- Fixed assets	181,099	177,201	358,300
Segment assets	5,365,831	9,627,125	14,992,956
Segment liabilities	2,028,803	4,128,349	6,157,152

	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

(b) Reconciliation of reportable segment assets and liabilities

	As at 31 December 2012	As at 31 December 2011
	HK$	*HK$*
Assets		
Reportable segment assets	14,992,956	26,025,777
Deferred tax assets	678,400	-
Unallocated head office and corporate assets	196,699	1,941,745
Consolidated total assets	15,868,055	27,967,522
Liabilities		
Reportable segment liabilities	6,157,152	4,318,738
Current tax payable	569,000	344,000
Unallocated head office and corporate liabilities	678,459	934,848
Consolidated total liabilities	7,404,611	5,597,586

(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.

4. OPERATING LOSS

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

	2012	2011
	HK$	*HK$*
Auditor's remuneration	393,250	187,000
Depreciation of fixed assets	358,300	311,590
Amortisation of intangible assets	1,553,333	-
Impairment on intangible assets	10,980,000	-
Operating lease charges: minimum lease payments for properties	2,783,515	2,897,250
Exchange gain, net	(6,634)	(100,183)

5. FINANCE COSTS

	2012	2011
	HK$	*HK$*
Interest expenses for hire purchase	6,029	7,586
Others	-	2
	6,029	7,588

6. TAXATION

Taxation in the consolidated statement of comprehensive income represents:

	2012	2011
	HK$	*HK$*
Hong Kong corporate income tax		
- Provision for the current year	251,000	344,000
- Over-provision in the previous year	(26,000)	-
- Deferred tax – relating to tax loss	(678,400)	-
	(453,400)	344,000

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

	2012	2011
	HK$	*HK$*
Loss before taxation	14,359,892	7,972,965
Loss multiplied by standard rate of corporation tax in Hong Kong of 16.5%	2,369,382	1,315,539
Effect of:		
Over-provision in the previous year	(26,000)	-
Tax loss recognised for deferred tax purpose	(2,796,782)	-
Creation of tax losses for which no deferred tax asset was recognized	-	(971,539)
	(453,400)	344,000

A deferred tax asset has been recognised 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

	2012 *HK$*	2011 *HK$*
Salaries, wages and other benefits	3,358,089	4,586,614
Contributions to defined contribution plan	205,210	186,559
	3,563,299	4,773,173

8. COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2012 *HK$*	2011 *HK$*
Salaries and other short-term benefits:		
-Salaries and allowances	2,170,000	2,490,000
-Retirement scheme contribution	39,500	37,000
	2,209,500	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.

The service agreement has since been renewed on a yearly basis.

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.

	2012	2011
	HK$	*HK$*
Losses attributable to equity holders of parent entity	(10,182,920)	(8,552,716)
Number of shares		
Weighted average number of ordinary shares in issue	61,831,069	61,831,069
Loss per share	0.16	0.14

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.

	2012	2011
	HK$	*HK$*
Losses attributable to equity holders of parent entity	(10,182,920)	(8,552,716)
Number of shares		
Weighted average number of ordinary shares in issue	61,831,069	61,831,069
Loss per share	0.16	0.14

As noted in note 27 the group issued 428,381 new ordinary shares on 8 January 2013. This issue has no material impact on the basic or diluted EPS for the year ended 31 December 2012.

MiLOC Group Limited
Notes to the non-statutory group financial statements
For the year ended 31 December 2012

10. FIXED ASSETS

	Leasehold improvements	Furniture & fixtures	Office equipment	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Cost					
At 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 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 2011	449,070	144,420	364,807	109,667	1,067,964
Cost					
At 1 January 2012	571,526	181,765	541,304	140,000	1,434,595
Additions	27,650	23,620	117,996	-	169,266
Disposals	-	(9,050)	-	(140,000)	(149,050)
Written off	(382,526)	-	-	-	(382,526)
At 31 December 2012	216,650	196,335	659,300	-	1,072,285
Accumulated Depreciation					
At 1 January 2012	122,456	37,345	176,497	30,333	366,631
Charge for the year	99,099	45,497	213,704	-	358,300
Disposals	-	(3,242)	-	(30,333)	(33,575)
Written off	(133,884)	-	-	-	(133,884)
At 31 December 2012	87,671	79,600	390,201	-	557,472
Net book value					
At 31 December 2012	128,979	116,735	269,099	-	514,813

11. OTHER INTANGIBLE ASSETS

	Patent of TCM	Licence of quality management system for TCM clinic	Total
	HK$	*HK$*	*HK$*
Cost			
At 1 January 2011	5,000,000	14,400,000	19,400,000
Additions	-	-	-
Impairment	-	-	-
At 31 December 2011	5,000,000	14,400,000	19,400,000
Accumulated amortisation			
At 1 January 2011	-	-	-
Charge for the year	-	-	-
At 31 December 2011	-	-	-
Net book value			
At 31 December 2011	5,000,000	14,400,000	19,400,000
Cost			
At 1 January 2012	5,000,000	14,400,000	19,400,000
Additions	-	-	-
Impairment	-	(10,980,000)	(10,980,000)
At 31 December 2012	5,000,000	3,420,000	8,420,000
Accumulated amortisation			
At 1 January 2012	-	-	-
Charge for the year	-	1,553,333	1,553,333
At 31 December 2012	-	1,553,333	1,553,333
Net book value			
At 31 December 2012	5,000,000	1,866,667	6,866,667

Patent of TCM:

The patent was not amortised during the year ended 31 December 2012 as the patent was 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 amortised for the year ended 31 December 2012. 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.

The discounted cash flow review for 2012 showed an expected net present value for future cash flows of HK$1.86 million. Accordingly, an impairment loss of HK$10.98m has been recognised for the year ended 31 December 2012.

12. GOODWILL

	2012	*2011*
	HK$	*HK$*
Balance at the beginning of the year	2,846,964	165,691
Additions	-	2,681,273
Impairment charge for the year	-	-
Balance at the end of the year	2,846,964	2,846,964

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

Two CGUs are included within the Group's goodwill. One relates to the Group's TCM clinic operations and the other relates to the TCM retail operation.. 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. A sensitivity analysis has 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:

	2012	*2011*
Gross margin	48%	31% - 56%
Growth rate*	20%	20%
Discount rate	17%	17%

*Growth rate is forecast to be 20% for the next three years, with future growth rates forecast to be 5% after three years

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 2012 and 2011 are as follows.

	2012	2011
	HK$	*HK$*
Finished goods	803,636	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 2012 and 2011 were as follow:

	2012	2011
	HK$	*HK$*
Amount due from shareholders	113,852	80,277
Amount due to shareholders	118	-
Amount due to directors	2,111,366	2,108,325
	2,111,484	2,108,325

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

The amount due to the directors as at 31 December 2012 and 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 2012 and 2011 were as follows:

	2012	**2011**
	HK$	***HK$***
Purchases from Green Health Supplement International Company	2,634,089	3,256,324
Management service fee paid/payable to Green Health Supplement International Company	-	99,417
Management service fee received/receivable from Green Health Supplement International Company	63,414	-
Rental fee received/receivable from a Green Health Supplement International Company	36,000	60,000

Mr. Chow Ching Fung, executive director, is a partner in Green Health Supplement International Company, an unlimited company.

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2012 and 2011 comprise:

	2012	**2011**
	HK$	***HK$***
Cash at bank and in hand	2,880,735	2,270,849

19. SHARE CAPITAL

	2012	2011
	HK$	HK$
Authorised,		
100,000,000 ordinary shares of US$0.001 each		
At the beginning and end of the year	775,000	775,000
Allotted and fully paid:		
No. of shares:		
At the beginning and end of the year	61,831,069	61,831,069
Amount:		
At the beginning and end of the year	481,046	481,046

20. OTHER PAYABLES AND ACCRUALS

	2012	2011
	HK$	*HK$*
Other payables	4,387	370
Receipts in advance	1,584,244	839,305
Accruals	1,022,664	1,351,456
Others	10,111	113,273
	2,621,406	2,304,404

21. CASH GENERATED FROM/(USED IN) OPERATIONS

Reconciliation of loss before taxation to cash used in operations:

	2012	**2011**
	HK$	***HK$***
Loss before taxation	(14,359,892)	(7,628,965)
Adjustments:		
Depreciation of fixed assets	358,300	311,590
Amortisation of intangible assets	1,553,333	-
Fixed assets written off	248,642	-
Loss on disposal of fixed assets	54,995	-
Impairment of intangible asset	10,980,000	-
Interest income	(154)	(282)
Interest expenses	6,029	7,588
Operating loss before changes in working capital	(1,158,747)	(7,310,069)
Decrease/(Increase) in inventories	196,278	(262,904)
(Increase)/decrease in trade receivables	(172,712)	419,912
Decrease/(Increase) in other receivables and prepayments	311,278	(597,218)
(Increase)/decrease in amount due from shareholders	(33,575)	926,360
Increase/(decrease) in trade payables	1,261,864	576,534
Increase/(decrease) in other payables and accruals	317,002	(208,964)
Increase/(decrease) in amount due to shareholders	118	(7,767)
Increase/(decrease) in amount due to directors	3,041	(665,769)
Cash generated from/(used in) operations	724,547	(7,129,885)

22. ACQUISITION OF SUBSIDIARIES

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	187,131	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:

	2012	2011
	HK$	*HK$*
Not later than one year	2,115,000	1,951,048
Later than one year but less than five years	2,162,384	-
	4,277,384	1,951,048

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:

	2012	2011
	HK$	*HK$*
	Loan and receivables	**Loan and receivables**
Financial assets		
Inventories	803,636	999,914
Trade receivables	347,894	175,182
Other receivables	130,148	104,510
Amount due from shareholders	113,852	80,277
Cash and cash equivalents	2,880,735	2,270,849
	4,276,265	3,630,732
	Other financial liabilities	**Other financial liabilities**
Financial liabilities		
Trade payables	2,102,721	840,857
Other payables	4,387	370
	2,107,108	841,227

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:

	2012	2011
	HK$	*HK$*
Inventories	803,636	999,914
Trade receivables	347,894	175,182
Other receivables	194,698	104,510
Amount due from shareholders	113,852	80,277
Cash and cash equivalents	2,880,735	2,270,849
	4,340,815	3,630,732

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$28,807 (2011: HK$22,708). A corresponding decrease would have an equal but opposite effect.

Liquidity risk

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

Currency risk management

The Group is exposed to currency risk on financial assets of HK$1,220 (2011: HK$243,829) 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$184,101 (2011: 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 ISDX. The options are is exercisable by notice to the Company at any time during the five year period commencing on the date of Admission.

	2012		2011	
	Number of options	**Average exercise price**	**Number of options**	**Average exercise price**
		GBP		**GBP**
Outstanding at the beginning of the year				
Granted	72,161	0.33	72,161	0.33
Lapsed	-	-	-	-
Forfeited by option holder	-	-	-	-
Outstanding at the end of the year	**72,161**	**0.33**	**72,161**	**0.33**
Exercisable at the end of the year	72,161	0.33	72,161	0.33

As the Company was admitted to the ISDX Growth market 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 2012 and 2011, there were no share options granted.

27. POST BALANCE SHEET EVENT

On 8 January 2013 the company issued 428,381 new US$0.001 ordinary shares. The issue raised £96,385.55 (22.5p per share). Following the completion of the placing the total ordinary shares in issue increased to 62,259,450.

On 8 May 2013, the Group entered into a franchise and management agreement with a TCM clinic in Tuen Mun, Hong Kong, for the provision of franchise and management services. This is the first franchise TCM clinic of the Group.

On 22 May 2013, the Group entered into a franchise and management agreement with a TCM clinic in Tai Po, Hong Kong, for the provision of franchise and management services. This is the second franchise TCM clinic of the Group