

MiLOC GROUP LIMITED

**DIRECTORS' REPORT AND NON-STATUTORY GROUP FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2017

MiLOC GROUP LIMITED
CORPORATE INFORMATION

DIRECTORS

Executive directors:

Professor Chow Ching Fung
Ong Ban Poh Michael

Non-executive directors:

Ivor Colin Shrago
Ow Kian Jing Dennis

COMPANY NUMBER

237076

CORPORATE ADVISOR

Peterhouse Corporate Finance Limited
New Liverpool House
15 Eldon Street
London EC2M 7LD

COMPANY SECRETARY

The R&H Trust Co. Limited
Windward 1
Regatta Office Park
P.O. Box 897GT
Grand Cayman, Cayman Islands

REGISTERED OFFICE

Windward 1, Regatta Office Park,
P.O. Box 897 GT. Grand Cayman,
Cayman Islands

AUDITOR

Crowe 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
18/F United Centre
95 Queensway, Hong Kong

MiLOC GROUP LIMITED

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MiLOC GROUP LIMITED
CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

The chairman presents his statement for the year ended 31 December 2017.

Dear Shareholders,

I am pleased to report the results of the Group for the year ended 31 December 2017.

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 MiLOC's online store.

Financial highlights

Revenue for the year ended 31 December 2017: HK\$11,618,098 (2016: HK\$10,889,218)

Loss for the year: HK\$17,269,618 (2016: HK\$11,488,841)

The basic and diluted loss per share for the year: HK\$0.24 (2016: HK\$0.17)

The Group's cash position as at 31 December 2017: HK\$3,891,331(2016: HK\$3,045,423)

Review of significant activities

Private Placings

In 2017, the Group raised HK\$11,429K through private placings. The proceeds of these subscriptions have been applied towards several activities of the Company, including the TCM Plus range of skincare products and AKFS Plus range of hair products as mentioned above (Please refer to Note 19 for details of private placings).

Launch of New Products

On 16 December 2017, the Group launched a series of new TCM hair-care products under the brand name of AKFS Plus. These products have been developed jointly by MiLOC Pharmaceutical (HK) Limited ("MPHK"), the Group's wholly-owned subsidiary, and Kwok Fu Shing (also known as Aaron Kwok), a well-known and successful singer, dancer and actor in Asia.

MPHK has entered into a distribution agreement with a subsidiary of NetEase Inc, a company listed on the NASDAQ stock exchange in the USA which is one of the leading cross-border online retail platforms. Mannings, one of the leading personal health and beauty retailers in Hong Kong is already selling AKFS Plus. The Company is also looking to enter into distribution agreements with other leading distributors in Hong Kong, Taiwan and Mainland China.

MiLOC GROUP LIMITED
CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

Financial review

(i) Revenue and gross profit

The Group's revenue for the year ended 31 December 2017 amounted to HK\$11,618,098 which represented a 6.7% increase as compared to the year ended 31 December 2016. This was mainly due to an increase of sales on skincare products. The Group's revenue for the year included sales of TCM that amounted to approximately HK\$6,516,000 (2016: approximately HK\$3,354,000) and revenue from its clinic operations that amounted to approximately HK\$5,102,000 (2016: approximately HK\$7,535,000). The Group's gross profit and gross profit margin for the year ended 31 December 2017 amounted to HK\$5,233,207 and 45% (2016: HK\$5,845,950 and 54%) respectively. The decrease in gross profit margin was the result of a lower gross profit margin for selling TCM plus skincare products. The Group's other revenue for the year ended 31 December 2017 amounted to HK\$253K, a decrease of 22% compared to the year ended 31 December 2016.

(ii) Operating expenses

The Group's distribution costs for the year ended 31 December 2017 amounted to HK\$8,201,317 which increased by 1009.99% as compared to the year ended 31 December 2016. It was mainly due to a one-off expense on launching and promotion of AKFS PLUS series products amounted to HK\$3,157,000 and the royalty fee for the year ended 31 December 2017 amounted to approximately HK\$4,184,000. The Group's administrative expenses for the year ended 31 December 2017 were approximately HK\$13,350,000 compared to approximately HK\$16,595,000 for the year ended 31 December 2016, a decrease of 19.55% as there was a royalty fee of approximately HK\$2,500,000 classified under administrative expenses in 2016 and in current year, the royalty fee is classified under distribution expenses.

(iii) Loss and loss per share

The Group's loss for the year amounted to HK\$17,269,618 (2016: HK\$11,488,841). As a result, the Group's basic and diluted loss per share for the year was HK\$0.24 (2016: HK\$0.17).

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

MILOC GROUP LIMITED

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

(iv) Balance sheet items

The Group's tangible fixed assets as at 31 December 2017 amounted to HK\$892,342 which mainly comprised leasehold improvements, furniture and fixtures and office equipment. The Group's tangible fixed assets decreased by approximately HK\$1,096,000 compared with approximately HK\$1,988,000 as at 31 December 2016 mainly due to the depreciation of fixed assets for the year.

The Group's other intangible assets as at 31 December 2017 amounted to HK\$4,285,714 which represented a decrease of approximately HK\$357,000 compared with approximately HK\$4,643,000 as at 31 December 2016 due to an amortisation for the year.

The Group's goodwill as at 31 December 2017 was valued at HK\$485,999 with a decrease of approximately HK\$440,000 compared with approximately HK\$926,000 as at 31 December 2016 due to a recognised impairment for goodwill of a subsidiary.

The Group's inventories as at 31 December 2017 amounted to HK\$7,367,776 with a decrease of approximately HK\$557,000 over the balance as at 31 December 2016.

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

The Group's trade payables as at 31 December 2017 amounted to HK\$935K with a decrease of HK\$5,401K over the balance as at 31 December 2016. The deduction mainly due to the Company settles skincare products trade payable.

The Group's cash and cash equivalents increased from HK\$3,045K as at 31 December 2016 to HK\$3,891K as at 31 December 2017. For details of these movements, please refer to the Group's cash flow statement included in the non-statutory group financial statements.

Outlook

The Company's immediate and long term objective is to expand its TCM based product portfolio and it is, for that purpose, actively promoting the TCM Fast-Moving Consumer Goods ("FMCG") side of the business. Our Board believes that the introduction of TCM FMCG product ranges skin-care and hair-care products will enable the Company to promote a TCM culture and products to customers in different age groups and capture a wider customer base in Asia including but not limited to Hong Kong and Mainland China.

Our Board will continue to work towards this and will actively look to building distribution channels both online and offline. The Company is near the end of negotiations with a few large distributors and is confident that the launch of "AKFS Plus", the TCM hair-care product linked with Aaron Kwok, will lead to a significant growth in sales in the coming years.

Regarding our medical business, we will continue to maintain and provide professional TCM services to our patients and we believe that it will promote the brand name of "MiLOC" including the medical services while we continue to input more resources for the marketing of our TCM FMCG products. This will eventually bring more business and positive revenue to the Group.

MiLOC GROUP LIMITED
CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

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



Chow Ching Fung
Chairman
30 May 2018

MiLOC GROUP LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017.

Principal activities and business review

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

The Group's revenue for the year ended 31 December 2017 amounted to HK\$11,618K which included sales of TCM amounted to HK\$6,516K and revenue from its clinic operation amounted to HK\$5,102K. The Group's loss for the year amounted to HK\$17,270K. The basic and diluted loss per share for the year was HK\$0.24. The Group's net cash position as at 31 December 2017 was HK\$3,891K.

Financial highlights

	For the year ended 31 December 2017	For the year ended 31 December 2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	11,618	10,889
Gross profit	5,233	5,846
Gross profit margin	45%	54%
Administrative expenses	(13,350)	(16,595)
Loss for the year	(17,270)	(11,489)
Loss per share – basic and diluted (HK\$)	(0.24)	(0.17)

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 2017

Results and dividends

Loss after taxation for the year ended 31 December 2017 amounted to HK\$17,270K (2016: HK\$11,489K).

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

Directors

The Directors who held office during the year were:

Executive directors:

Professor Chow Ching Fung – Chairman

Ong Ban Poh Michael

Non-executive directors:

Ivor Colin Shrago

Ow Dennis Kian Jing

MILOC GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017	Number of ordinary shares held as at 31 December 2016
Executive directors:		
Professor Chow Ching Fung (note a)	42,224,696	42,224,696
Ong Ban Poh Michael (note a)	42,224,696	42,224,696
Non-executive directors:		
Ivor Colin Shrago (note b)	410,135	356,074
Ow Dennis Kian Jing (note b)	309,412	486,765

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

Notes:(b) On 28 April 2014, Ow Dennis Kian Jing, non-executive director of the Company, that he had pledged 217,391 Ordinary Shares of the Company as collateral for a loan provided on 5 March 2014 by Ivor Shrago, another non-executive director of the Company. The principal amount of the loan is £35,000.

The Directors hold 56.47% of the issued share capital at 31 December 2017.

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 2017	Number of ordinary shares held as at 31 December 2016
Ronnie Choi (CFO)	-	312,592
Professor He Zong Seng, senior consultant	-	1,221,061

MiLOC GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Statement of directors' responsibilities

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

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

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

The maintenance and integrity of the MiLoc Group Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Principal risks and uncertainties

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

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

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

MiLOC GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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

Financial assets and liabilities

During the year ended 31 December 2017, finance was improved by stricter working capital management in relation to the payment of creditors. By executing the business plan going forward, the Group anticipates that its principal sources of finance will comprise cash in the bank, borrowings and share placings. The main purpose of these is to enhance working capital for the company's operations and to finance the company's operations. Its main liabilities lie in trade payables.

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

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

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

Going concern

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

Annual general meeting

The annual general meeting of the Company will be held on 29 June 2018 at 4:00 pm.

MiLOC GROUP LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

Substantial shareholders

As at 30 May 2018, 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	54.93%
Chow King Tung	5,276,622	6.86%
Lim Yi Shenn	3,684,623	4.79%
Liu Wei Hung	2,526,666	3.29%

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

Provision of information to auditor


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

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

Auditors

The Group's non-statutory auditors are Crowe 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 30 May 2018 and signed on its behalf.


Ong Ban Poh Michael
Director
30 May 2018

MiLOC GROUP LIMITED
GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

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

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

Set out below are MiLOC's corporate governance practices for the year ended 31 December 2017.

Leadership

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

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

Board Meetings - The core activities of the Board are carried out in scheduled meetings of the Board and its Committees. These meetings are timed to link to key events in the Company's corporate calendar and regular reviews of the business are conducted. Additional meetings and conference calls are arranged to consider matters which require decisions outside the scheduled meetings. During 2017, the Board met on 12 occasions.

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

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

MiLOC GROUP LIMITED
GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

Attendance at meetings;

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

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

MiLOC GROUP LIMITED

GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

Delegations of authority

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

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

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

Effectiveness

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

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

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

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GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

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

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

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

Accountability

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

Going concern - The Company's business activities, together with factors likely to affect its future operations, financial position, and liquidity position are set out in the Chairman's Statement, Operational Review and the Risks and Uncertainties section of the Annual Report. In addition, note 24 to the consolidated financial statements discloses the Company's financial risk management practices with respect to its capital structure, liquidity risk, interest rate risk, credit risk, and other related matters.

MiLOC GROUP LIMITED
GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

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

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

Remuneration

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

Nomination

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

Committee's Role

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

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GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

Main responsibilities

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

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

Shareholder relations

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

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

Chow Ching Fung
Chairman
30 May 2018

MiLOC GROUP LIMITED

REMUNERATION COMMITTEE REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The Remuneration Committee

The Company's Remuneration Committee comprises of 2 non-executive Directors: Ivor Colin Shrago (Chairman), and Dennis Ow Kian Jing and it met twice during the year to 31 December 2017.

Committee's main responsibilities

- The Remuneration Committee will consider the remuneration policy, employment terms and remuneration of the Directors and review the remuneration of senior management;
- The Remuneration Committee's role is advisory in nature and it will make recommendations to the Board on the overall remuneration packages for Directors and senior management in order to attract, retain and motivate high quality executives capable of achieving the Company's objectives;
- The Remuneration Committee will also review proposals for any share option plans and other incentive plans, make recommendations for the grant of awards under such plans as well as approving the terms of any performance-related pay schemes;
- The Board's policy is to remunerate the Company's executives fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel; and
- The Remuneration Committee, when considering the remuneration packages of MiLOC's executives, will review the policies of comparable Companies in the industry.

Committee advisors

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

MiLOC GROUP LIMITED

REMUNERATION COMMITTEE REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Statement of MiLOC's policy on Directors' remuneration

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

Remuneration Components

For the year ended 31 December 2017 base salaries and pension contributions were the sole component of remuneration. The board will consider the components of Director remuneration during the year and following this review these are likely to consist of:

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

Service Agreements and Letters of Appointment

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

MILOC GROUP LIMITED

REMUNERATION COMMITTEE REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Terms of appointment

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

Director	Year of appointment	Number of years completed	Date of current engagement letter
Chow Ching Fung	2010	7	15/03/2010
Michael Ong Ban Poh	2010	7	15/03/2010
Dennis Ow Kian Jing	2010	7	13/06/2013
Ivor Colin Shrago	2010	7	14/12/2010

Consideration of shareholder views

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

Policy for new appointments

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

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

MiLOC GROUP LIMITED

**REMUNERATION COMMITTEE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

Set out below are the emoluments of the Directors for the year ended 31 December 2017 (HKD):

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

Set out below are the emoluments of the Directors for the year ended 31 December 2016 (HKD) (audited):

Name of Director	Short term employee benefits	Post employment benefits	Other long term benefits	Terminatio n benefits	Other	Total
Chow Ching Fung	1,200,000	-	-	-	18,000	1,218,000
Michael Ong Ban Poh	1,200,000	-	-	-	-	1,200,000
Dennis Ow Kian Jing	360,000	-	-	-	-	360,000
Ivor Colin Shrago	280,000	-	-	-	-	280,000

None of the remuneration paid was subject to performance conditions.

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

MiLOC GROUP LIMITED

**REMUNERATION COMMITTEE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

Other matters

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

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

The Company has not paid any compensation to past Directors.

Approved on behalf of the Board of Directors.

Ivor Colin Shrago
Chairman of the Remuneration Committee
30 May 2018

MiLOC GROUP LIMITED

REPORT FROM THE AUDIT COMMITTEE FOR THE YEAR ENDED 31 DECEMBER 2017

The Audit Committee

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

Main Responsibilities

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

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

Governance

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

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

MiLOC GROUP LIMITED

REPORT FROM THE AUDIT COMMITTEE FOR THE YEAR ENDED 31 DECEMBER 2017

Meetings

In 2017, the Audit Committee met on 3 occasions.

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

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

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

External auditor

The Company's external auditors are Crowe Clark Whitehill LLP. The external auditors have unrestricted access to the Audit Committee Chairman. The Committee is satisfied that Crowe Clark Whitehill LLP has adequate policies and safeguards in place to ensure that auditor objectivity and independence are maintained. The external auditors report to the Audit Committee annually on their independence from the Company. In accordance with professional standards, the partner responsible for the audit is changed every five years. The current auditors, Crowe Clark Whitehill LLP were first appointed by the Company in 2011 and therefore the partner has rotated off the engagement after completing the December 2015 audit and a new engagement partner was appointed for the December 2016 audit. Having assessed the performance objectivity and independence of the Auditors, the Committee will be recommending the reappointment of Crowe Clark Whitehill LLP as auditors to the company at the 2017 annual general meeting.

Dennis Ow Kian Jing
Chairman of the Audit Committee

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

Opinion

We have audited the financial statements of MiLOC Group Limited and its subsidiaries (the "Group") for the year ended 31 December 2017, which comprise:

- the Group statement of comprehensive income for the year ended 31 December 2017;
- the Group statement of financial position as at 31 December 2017;
- the Group statement of cash flows for the year then ended;
- the Group statement of changes in equity for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2017 and of the Group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which explains, amongst other matters, that the group is reliant on support from shareholders and its ability to raise additional finance through the placing of shares. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Overview of our audit approach

Materiality

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

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be HK\$440,000, based on approximately 3% of the loss for the year.

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

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

We agreed with the Audit Committee to report to it all identified errors in excess of HK\$15,000. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

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

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

Key Audit Matters

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

This is not a complete list of all risks identified by our audit.

<i>Key audit matter</i>	<i>How the scope of our audit addressed the key audit matter</i>
<i>Valuation of Intangible assets</i>	
The financial statements include Goodwill of \$485,999 and the Rorrigo patent of \$4,285,714. Under IAS 38, the intangibles are subject to an annual impairment review and the recoverable amount must be measured in accordance with IAS 36. The recoverable value of was calculated by management having regard to a discounted cash flow model (goodwill and patent) and additionally market research for the patent, this required management to estimate the expected quantum and growth of cash flows and select a suitable discount rate in order to calculate the present value.	We evaluated the appropriateness of managements' identification of CGUs. We benchmarked and challenged key assumptions in management's valuation models used to determine the recoverable amount and discount rates, performed testing of the mathematical accuracy of the cash flow models and challenged and agreed the key assumptions to available data.

Revenue recognition

The group recognised revenue from the sale of products and the provision of medical consulting services

Procedures were undertaken to have review the accounting policy and consider whether it is appropriate. We designed procedures to test each revenue stream and that the accounting policy was appropriately applied.

Inventory valuation

As disclosed in note 14 the group holds inventory and its policy is to hold inventory at the lower of cost and net realisable value.

Procedures were undertaken to ensure physical verification of inventory from attending the inventory counts performed at the year end. Procedures were also undertaken on a sample basis to

- (i) test the net realisable value of inventory to recent selling prices.
 - (ii) agree their cost to recent purchase invoices.
 - (iii) make enquiries of management to determine whether any specific write downs were required having regard to the ageing of inventory.
-

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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



Stephen Bullock (Senior Statutory Auditor)
for and on behalf of
Crowe Clark Whitehill LLP
Statutory Auditor
London
30 May 2018

MiLOC Group Limited
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2017

	Notes	2017 <i>HKS</i>	2016 <i>HKS</i>
From continuing operations			
Revenue	3	11,618,098	10,889,218
Cost of sales		(6,384,891)	(5,043,268)
Gross profit		<u>5,233,207</u>	<u>5,845,950</u>
Other revenue	3	253,146	323,161
Distribution costs		(8,201,371)	(738,874)
Administrative expenses		(13,350,470)	(16,594,915)
Foreign exchange gain / (loss), net		(282,949)	14,972
Adjusted operating loss	4	(16,348,437)	(11,149,706)
Impairment loss for intangible asset and goodwill		(439,872)	(497,278)
Operating loss		(16,788,309)	(11,646,984)
Finance costs	5	(481,311)	158,086
Interest income		2	57
Loss before taxation		<u>(17,269,618)</u>	<u>(11,488,841)</u>
Taxation	6	-	-
Loss for the for year		(17,269,618)	(11,488,841)
Other comprehensive income		-	-
Total comprehensive result for the year		<u>(17,269,618)</u>	<u>(11,488,841)</u>
Attributable to:			
The equity holders of the parent entity		(17,269,618)	(11,488,841)
Non-controlling interests		-	-
		<u>(17,269,618)</u>	<u>(11,488,841)</u>
Loss per share – from continuing operations (HKS)			
Basic	9	<u>(0.24)</u>	<u>(0.17)</u>
Diluted	9	<u>(0.24)</u>	<u>(0.17)</u>

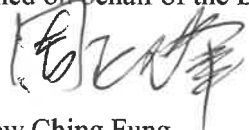
The accompanying accounting policies and notes numbered 1 to 27 form an integral part of these non-statutory group financial statements.

MiLOC Group Limited
Consolidated Statement of Financial Position
As of 31 December 2017

		As at 31	As at 31
		December 2017	December 2016
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>
Assets			
<i>Non-current assets</i>			
Fixed assets	<i>10</i>	892,342	1,987,803
Other intangible assets	<i>11</i>	4,285,714	4,642,857
Goodwill	<i>12</i>	485,999	925,871
		<u>5,664,055</u>	<u>7,556,531</u>
<i>Current assets</i>			
Inventories	<i>14</i>	7,366,776	7,923,958
Trade receivables	<i>15</i>	369,824	235,748
Other receivables and prepayments	<i>16</i>	776,015	899,173
Cash and cash equivalents	<i>18</i>	3,891,331	3,045,423
		<u>12,403,946</u>	<u>12,104,302</u>
Total assets		<u>18,068,001</u>	<u>19,660,833</u>
Equity and liabilities			
Equity			
Share capital	<i>19</i>	582,022	551,114
Share premium		65,027,334	53,364,884
Retained earnings		(67,413,478)	(50,143,860)
Total equity		<u>(1,804,122)</u>	<u>3,772,138</u>
Liabilities			
<i>Current liabilities</i>			
Trade payables		934,687	6,335,533
Other payables and accruals	<i>20</i>	11,459,155	2,555,882
Amounts due to directors	<i>17</i>	2,111,056	2,111,366
		<u>14,504,898</u>	<u>11,002,781</u>
<i>Non-current liabilities</i>			
Borrowings	<i>21</i>	5,367,225	4,885,914
Total liabilities		<u>19,872,123</u>	<u>15,888,695</u>
Total equity and liabilities		<u>18,068,001</u>	<u>19,660,833</u>

Approved by the Board of Directors on 30 May 2018

Signed on behalf of the Directors



Chow Ching Fung
 Director

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

MiLOC Group Limited
Consolidated Statement of Changes in Equity
For the year ended 31 December 2017

	Notes	Share capital HK\$	Share premium HK\$	Retained earnings HK\$	Total HK\$	Non-controlling interests HK\$	Total Equity HK\$
At 1 January 2016		529,242	44,261,756	(38,655,019)	6,135,979	-	6,135,979
Comprehensive Income and Total Comprehensive Income							
Loss for the year		-	-	(11,488,841)	(11,488,841)	-	(11,488,841)
Transactions with owners							
Issuance of shares		21,872	9,103,128	-	9,125,000	-	9,125,000
At 31 December 2016 and 1 January 2017		551,114	53,364,884	(50,143,860)	3,772,138	-	3,772,138
Comprehensive Income and Total Comprehensive Income							
Loss for the year		-	-	(17,269,618)	(17,269,618)	-	(17,269,618)
Transactions with owners							
Issuance of shares		30,908	11,662,450	-	11,693,358	-	11,693,358
At 31 December 2017		582,022	65,027,334	(67,413,478)	(1,804,122)	-	(1,804,122)

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

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

MiLOC Group Limited
Consolidated Statement of Cash Flows
For the year ended 31 December 2017

	<i>Notes</i>	2017 <i>HK\$</i>	2016 <i>HK\$</i>
OPERATING ACTIVITIES			
Cash used in operations	22	(10,845,052)	(9,738,073)
INVESTING ACTIVITIES			
Purchase of fixed assets		(2,400)	(2,470,816)
Interest received		2	-
Net cash used in investing activities		(2,398)	(2,470,816)
FINANCING ACTIVITIES			
Issuance of shares		11,693,358	9,125,000
Issuance of convertible bonds		-	5,044,000
Interest paid		-	(158,086)
Net cash generated from financing activities		11,693,358	14,010,914
Net increase in cash and cash equivalents		845,908	1,802,025
Cash and cash equivalents at beginning of year		3,045,423	1,243,398
Cash and cash equivalents at end of year		3,891,331	3,045,423

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

MiLOC Group Limited
Notes to the non-statutory group financial statements
For the year ended 31 December 2017

1. CORPORATE INFORMATION

MiLOC Group Limited (the 'Company') was incorporated in the Cayman Islands on 10 February 2010. Its registered office is The R&H Trust Co., Limited, One Capital Place, George Town, P.O. Box 897, Cayman Islands. The nature of the Company's operations and its principal activities are to act as the holding company of a group engaged in (i) the provision of TCM healthcare services, including consultations and TCM therapies, through a network of clinics in Hong Kong, and (ii) the sale and distribution of TCM healthcare and skincare products through wholesale outlets and TCM clinics, the Group's retail store in Hong Kong and other non-related TCM retail outlets, as well as directly to customers through MiLOC's online store.

The non-statutory group financial statements were approved by the Board of Directors and authorised for issue on 30 May 2018 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\$") and it is functional currency of the Company.

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\$14,324K in the year ended 31 December 2017. Subsequent to report date, the Group has raised and received HK\$1M, this cash balance is considered sufficient to ensure the Group can operate for twelve months from the date of approval of these financial statements.

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 2017 expansion of the Group's hospital and clinic network and the progress and sale of the Group's TCM and health products, and have been reviewed and approved by the Board of Directors.

MiLOC Group Limited
Notes to the non-statutory group financial statements
For the year ended 31 December 2017

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

Consolidation and business combinations

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

MiLOC Group Limited
Notes to the non-statutory group financial statements
For the year ended 31 December 2017

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

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

(ii) *Financial liabilities and equity instruments*

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 profit or loss account. 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").

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

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

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

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

Where intangible assets are acquired by the Group from third parties the costs of acquisition are capitalised. Patents acquired with businesses are capitalised independently where they are separable and have an expected life of more than one year. Intangible assets are amortised on a straight-line basis over their estimated useful lives, not exceeding 20 years, except where the end of the useful economic life cannot be foreseen. Where intangible assets are not amortised, they are subject to annual impairment tests. Both initial valuations and valuations for subsequent impairment tests are based on established market multiples or risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment reviews to change with a consequent adverse effect on the future results of the Group.

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

Fixed assets

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

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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	3 years
Furniture and fixtures	5 years
Office equipment	5 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

(i) Current income tax

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

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

(ii) Deferred tax

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

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

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

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

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

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

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

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

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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. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

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

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

Trade and other receivables

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

Revenue recognition

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.

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Research and development costs

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

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

This policy is in line with industry practice.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Foreign currency translation

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

(i) Transactions and balances

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

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

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

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

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

(ii) Group companies

The functional currencies of all subsidiaries is Hong Kong dollars.

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

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.

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

None of the new and revised Standards and Interpretations that were adopted in the current year were considered to have had a material effect to the presentation or disclosures reported in these Financial Statements.

- (i) Standards, amendments and interpretations to published standards not yet effective

The Directors have considered those Standards and Interpretations, which have not been applied in the Financial Statements but are relevant to the Group's operations, which are in issue but not yet effective and consider that IFRS 16 will have a significant financial impact and will result in the Groups operating leases to be included on the balance sheet. See note 23 for the operating lease commitments at 31 December 2017.

IFRS 15 is effective from 1 January 2018 and the Directors do not consider there to be any material impact on the future results of the Group. However there is likely to be an impact on the disclosures.

IFRS 9 is effective from 1 January 2018 and the Directors do not consider there to be any material impact on the 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, intangibles and inventory provisions, 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 assets may not be recoverable, the asset 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. Intangible assets and goodwill are tested annually for impairment. 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 provision of TCM healthcare services, including consultations and TCM therapies, through a network of clinics in Hong Kong, and (ii) the sale and distribution of TCM healthcare and skincare products through wholesale outlets and TCM clinics, the Group's retail store in Hong Kong and other non-related TCM retail outlets, as well as directly to customers through the Company's online store. Revenue recognised during the year can be analysed as follows:

	2017	2016
	HK\$	HK\$
Revenue		
Sales of TCM and healthcare and skincare products	6,516,331	3,353,699
Provision of TCM healthcare services	5,101,767	7,535,519
	<u>11,618,098</u>	<u>10,889,218</u>
Other revenue		
Management fee	240,000	253,000
Others	13,146	70,161
	<u>253,146</u>	<u>323,161</u>
Total revenue and other revenue	<u>11,871,244</u>	<u>11,212,379</u>

37.35% of revenue (2016: 13.66%) generated from a Taiwan based distributor.

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

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(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.

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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 2017 and 2016 is set out below:

For the year ended 31 December 2017			
	Sale of TCM Healthcare and Skincare Products	TCM Healthcare Services	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Revenue - External sales	6,516,331	5,101,767	11,618,098
Cost of sales	(3,638,602)	(2,746,289)	(6,384,891)
Gross profit	2,877,729	2,355,478	5,233,207
Other revenue	673	252,162	252,835
Distribution costs	(8,198,070)	(3,300)	(8,201,370)
Administrative expenses	(7,322,424)	(2,610,097)	(9,932,521)
Segment profit/(loss)	(12,642,092)	(5,757)	(12,647,849)
General group operating costs (including professional fees and directors remuneration)			(3,700,587)
Operating loss			(16,348,436)
Impairment loss for goodwill			(439,872)
Finance costs			(481,311)
Interest income			2
Loss before taxation			(17,269,617)
Taxation			-
Loss for the year			(17,269,617)

For the year ended 31 December 2017

	Sale of TCM Healthcare and Skincare Products	TCM Healthcare Services	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Additions of			
- Fixed assets	-	2,400	2,400
Depreciation of			
- Fixed assets	1,085,346	12,516	1,097,862
Segment assets	16,123,375	1,896,226	18,019,601
Segment liabilities	628,138	3,995,372	4,623,510

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For the year ended 31 December 2016

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

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(b) Reconciliation of reportable segment assets and liabilities

	As at 31 December 2017	As at 31 December 2016
	<i>HK\$</i>	<i>HK\$</i>
Assets		
Reportable segment assets	17,813,435	19,614,180
Unallocated head office and corporate assets	254,566	46,653
Consolidated total assets	<u>18,068,001</u>	<u>19,660,833</u>
Liabilities		
Reportable segment liabilities	9,191,294	10,772,240
Unallocated head office and corporate liabilities.	10,680,829	5,116,455
Consolidated total liabilities	<u>19,872,123</u>	<u>15,888,695</u>

(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.

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4. ADJUSTED OPERATING LOSS

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

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Auditor's remuneration	300,323	426,479
Depreciation of fixed assets	1,097,861	500,431
Impairment for fixed assets	-	-
Impairment for inventories	-	-
Operating lease charges: minimum lease payments for properties	2,614,714	3,354,899
Exchange (gain) / loss, net	282,949	(14,972)
	<u> </u>	<u> </u>

5. FINANCE COSTS

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Others	-	-
Fair value movement on derivative (note 21)	-	349,098
Interest	(481,311)	(191,012)
	<u>(481,311)</u>	<u>158,086</u>

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:

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Deferred tax asset b/f	-	-
Written down of the deferred tax asset	-	-
Deferred tax asset c/f	<u>-</u>	<u>-</u>

The deferred tax asset relates to the expected future utilisation of tax losses against future taxable profits amounting to approximately HK\$Nil (2016: HK\$ Nil). The amount of losses that are available but in respect of which no deferred tax asset has been recognised amounted to

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HK\$41,577,434 (2016: HK\$24,335,351). 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:

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Hong Kong corporate income tax		
- Provision for the current year`	-	-
- Under/(Over)-provision in the previous year	-	-
- Deferred tax – relating to tax loss	-	-
- Write down of the deferred tax assets	-	-
	<u>-</u>	<u>-</u>

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

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Loss before taxation	17,269,618	11,488,841
Loss multiplied by standard rate of corporation tax in Hong Kong of 16.5% Effect of:	(2,849,487)	(1,895,659)
Items not deductible for tax purposes	510,126	-
Items deductible for tax purposes	(17,462)	-
Losses carried forward	<u>2,356,823</u>	<u>1,895,659</u>
	<u>-</u>	<u>-</u>

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.

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

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Salaries, wages and other benefits	3,283,959	2,620,842
Contributions to defined contribution plan	155,184	123,708
	<u>3,439,143</u>	<u>2,744,550</u>

8. COMPENSATION OF KEY MANAGEMENT PERSONNEL

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Salaries and other short-term benefits:		
-Salaries and allowances	3,360,000	3,280,000
-Retirement scheme contribution	30,000	30,000
	<u>3,390,000</u>	<u>3,310,000</u>

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 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.

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9. EARNINGS PER SHARE – BASIC

Basic

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

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Losses attributable to equity holders of parent entity	<u>(17,269,618)</u>	<u>(11,488,841)</u>
Number of shares		
Weighted average number of ordinary shares in issue	72,309,826	69,633,964
Loss per share	<u>0.24</u>	<u>0.17</u>

Diluted loss per share is not presented on the basis that the effect of potential dilutive shares would be anti-dilutive and therefore are not included in the above calculation. Diluted earnings per share is therefore the same as earnings per share.

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10. FIXED ASSETS

	Leasehold improvements	Furniture & fixtures	Office equipment	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<i>Cost</i>				
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
<i>Accumulated Depreciation</i>				
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
<i>Net book value</i>				
At 31 December 2016	1,844,770	13,453	129,580	1,987,803
<i>Cost</i>				
At 1 January 2017	2,308,039	80,087	420,600	2,808,726
Additions	-	2,400	-	2,400
At 31 December 2017	2,308,039	82,487	420,600	2,811,126
<i>Accumulated Depreciation</i>				
At 1 January 2017	463,269	66,634	291,020	820,923
Charge for the year	1,064,106	3,869	29,886	1,097,861
At 31 December 2017	1,527,375	70,503	320,906	1,918,784
<i>Net book value</i>				
At 31 December 2017	780,664	11,984	99,694	892,342

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11. OTHER INTANGIBLE ASSETS

	Patent of Rorrico HK\$	Total HK\$
Cost		
At 1 January 2016	5,000,000	5,000,000
At 31 December 2016	<u>5,000,000</u>	<u>5,000,000</u>
Accumulated amortisation		
At 1 January 2016	-	-
Amortisation for the year	357,143	357,143
At 31 December 2016	<u>357,143</u>	<u>357,143</u>
Net book value		
At 31 December 2016	<u>4,642,857</u>	<u>4,642,857</u>
Cost		
At 1 January 2017	5,000,000	5,000,000
At 31 December 2017	<u>5,000,000</u>	<u>5,000,000</u>
Accumulated amortisation		
At 1 January 2017	357,143	357,143
Amortisation for the year	357,143	357,143
At 31 December 2017	<u>714,286</u>	<u>714,286</u>
Net book value		
At 31 December 2017	<u>4,285,714</u>	<u>4,285,714</u>

Patent of Rorrico:

In 2010, the Group acquired the intellectual property rights to Rorrico, a TCM for the treatment of influenza viruses, including the Influenza A virus and its sub-type virus, pandemic Influenza A (H1N1) or Swine flu. On 27 July 2011, the State Intellectual Property Office of the PRC granted the Rorrico Patent (the “Patent”). The group does not generate revenue from the patent as it is dependent on an outbreak of Swine flu occurring.

Previously the Patent was not amortised as it was considered to be under development. On the basis of medical research performed in the year to 31 December 2016 on the Rorrico patent that proved its ability as a TCM for the treatment of the influenza virus, management 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 reviewed annually for any indication of impairment applying a value in use methodology and assumes an outbreak of Swine flu in the following period, 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.

As an outbreak of Swine flu cannot be predicted, management also have regard to the market activity in other TCM patents, on the basis of this market research they have concluded the patent has a value in excess of its carrying value.

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12. GOODWILL

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Balance at the beginning of the year	925,871	1,423,149
Impairment for the year	(439,872)	(497,278)
Balance at the end of the year	<u>485,999</u>	<u>925,871</u>

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 2016 was HK\$0. This amount represented all the carrying value attributable to the cash generating unit. The carrying value of Goodwill relating to the clinic at 31 December 2016 was HK\$925,871, during the year the recoverable amount of this asset was assessed to be HK\$485,999 and the assets associated with this cash generating unit have been written down to HK\$485,999 on the basis of the value in use calculation the Goodwill allocated to the store was written off during the period. 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. Further impairments would be required if the margin and discount rates used in the model were altered. If the margin was decreased by two percentage points the Goodwill would be fully impaired. If the discount rate was increased by two percentage points a further impairment of HK\$51,454 would be required..

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

	<u>2017</u>	<u>2016</u>
Gross margin	47%	51%
Growth rate	0%	5%
Discount rate	17%	17%

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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:				
<i>Cash generating unit:</i>				
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
<i>Non-cash generating unit:</i>				
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:				
<i>Cash generating unit:</i>				
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 health 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
<i>Non-cash generating unit:</i>				
Smart Falcon Limited	3 December 2009, BVI	100%	He Yu and Professor He Zhong Sheng	Holding company of the intellectual property rights, including the Rorrico patent
MiLOC 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.

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14. INVENTORIES

The inventories as at 31 December 2017 and 2016 are as follows.

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Finished goods	7,366,776	7,923,958
Provision for the year	-	-
	<u>7,366,776</u>	<u>7,923,958</u>

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

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Deposits paid	622,950	745,860
Other receivables	153,065	146,760
Prepayment	-	6,553
	<u>776,015</u>	<u>899,173</u>

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 2017 and 2016 were as follow:

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Amount due to directors	<u>2,111,056</u>	<u>2,111,366</u>

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

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Apart from the above amount from/to the related companies, transactions between the Group and its related parties for the 31 December 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Purchases from Green Health Supplement International Company	364,753	341,026

At 31 December 2017, the trade payable to Green Health Supplement International Company is HK\$482,301 (2016: HK\$284,771)

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 2017 and 2016 comprise:

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Cash at bank and in hand	3,891,331	3,045,423

19. SHARE CAPITAL

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
<i>Authorised,</i> 100,000,000 ordinary shares of US\$0.001 each		
<i>Allotted and fully paid:</i>		
No. of shares:		
At the beginning of the year	70,815,289	68,011,248
Issuance of shares	3,962,614	2,804,041
At the end of the year	<u>74,777,903</u>	<u>70,815,289</u>
Amount:		
At the beginning of the year	551,114	529,242
Issuance of shares	30,908	21,872
At the end of the year	<u>582,022</u>	<u>551,114</u>

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On 27 and 28 April 2017, the Company entered into a total of three agreements to issue 622,266 new US\$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK\$1,800,401. These placings and allotments were completed during May 2017.

On 2 and 5 May 2017, the Company entered into a total of two agreements to issue 345,285 new US\$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK\$1,000,000. These placings and allotments were completed during May 2017.

On 15 June 2017, the Company entered into an agreement to issue 348,681 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 3% of the fundraising amount to a consultant of the Company by allotting and issuing a total of 10,460 new ordinary shares of US\$0.001 each at a price of 30.0p per share. These placings and allotments were completed during July 2017.

On 5, 13 and 19 July 2017, the Company entered into four agreement to issue 582,280 new US\$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK\$1,700,000. This placing was completed during July 2017.

On 25 August 2017, the Company entered into an agreement to issue 85,873 new US\$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK\$250,000. This placing was completed during Oct 2017.

On 4 and 26 October 2017, the Company entered into a total of four agreements to issue 1,893,859 new US\$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK\$5,679,006. The Company also agreed to pay a referral fee of 5% of the fundraising amount to consultants of the Company by allotting and issuing a total of 73,910 new ordinary shares of US\$0.001 each at a price of 30.0p per share. These placings and allotments were completed during Oct 2017.

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20. OTHER PAYABLES AND ACCRUALS

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Receipts in advance	5,402,727	310,773
Accruals	6,056,428	2,245,109
	<u>11,459,155</u>	<u>2,555,882</u>

21. BORROWINGS

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Due within one year	-	-
	<u>-</u>	<u>-</u>
Due are more than one year but less than two years	5,367,225	4,885,914
	<u>5,367,225</u>	<u>4,885,914</u>

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

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

On 29th December 2017, the Company revised principal terms are as follows:

Maturity date : 19 January 2019
Interest rate : 7.2% per annum

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

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

At 31 December 2016 and 2017 management considered listing was unlikely to be achieved and therefore the fair value of the derivative was £nil. The fair value movement on the derivative is shown as part of finance costs in the year ended 31 December 2016. The interest on the loan to 31 December 2017 was HK\$481k (2016 HK\$191k).

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22. CASH USED IN OPERATIONS

Reconciliation of loss before taxation to cash used in operations:

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Loss before taxation	(17,269,618)	(11,488,841)
Adjustments:		
Depreciation of fixed assets	1,097,861	502,506
Amortisation	357,143	357,143
Impairment loss for intangible asset and goodwill	439,872	497,278
Interest income	(2)	-
Interest expenses	481,311	-
	<hr/>	<hr/>
Operating cash flow before changes in working capital	(14,893,433)	(10,131,914)
Decrease / (increase) in inventories	557,182	(5,436,544)
(Increase) / decrease in trade receivables	(134,076)	14,987
Decrease in other receivables and prepayments	123,158	1,173,801
(Decrease) / increase in trade payables	(5,400,846)	5,835,918
Increase / (decrease) in other payables and accruals	8,903,273	(1,194,321)
Decrease in amount due to directors	(310)	-
	<hr/>	<hr/>
Cash used in operations	<u>(10,845,052)</u>	<u>(9,738,073)</u>

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23. COMMITMENTS UNDER OPERATING LEASES

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

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Not later than one year	1,532,100	1,734,000
Later than one year but less than five years	295,156	1,228,500
	<u>1,827,256</u>	<u>2,962,500</u>

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.

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

	<u>2017</u> <i>HK\$</i>	<u>2016</u> <i>HK\$</i>
	Loan and receivables	Loan and receivables
Financial assets		
Trade receivables	369,824	235,748
Other receivables	153,065	146,760
Cash and cash equivalents	3,891,331	3,045,423
	<u>4,414,220</u>	<u>3,427,931</u>
	Financial liabilities held at amortised cost	Financial liabilities held at amortised cost
Financial liabilities		
Trade payables	934,687	6,335,533
Borrowings	5,367,225	4,885,914
Amount due to directors	2,111,056	2,111,366
Accruals	6,056,428	2,245,109
	<u>14,469,396</u>	<u>15,577,922</u>

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.

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

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Trade receivables	369,824	235,748
Other receivables	153,065	146,760
Cash and cash equivalents	3,891,331	3,045,423
	<u>4,414,220</u>	<u>3,427,931</u>

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\$38,913 (2016: HK\$30,454). 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.

	<u>2017</u>	<u>2016</u>
	<i>HK\$</i>	<i>HK\$</i>
Financial liabilities due within one year		
Trade payables	934,687	6,335,533
Amount due to directors	2,111,056	2,111,366
Accruals	6,056,428	2,245,109
	<u>9,102,171</u>	<u>10,692,008</u>

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.

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Liquidity risk (continued)

The group has a borrowing of HK\$5,367,225 that is due for repayment in January 2019, the groups cash flow projections show that they will have adequate funds available at the repayment date even if future funding raising does not occur. See basis of preparation section of note 2 for more details regarding the cashflow projections and going concern.

Currency risk management

The Group is exposed to currency risk on financial assets of HK\$323,406 (2016: 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\$4,138 (2016: 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.

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During the year ended 31 December 2017 and 2016, there were no share options granted.

27. POST BALANCE SHEET EVENT

Private Placings

On 14, 15, 22 and 27 December 2017, the Company entered into a total of four agreements to issue 1,684,551 new US\$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK\$5,106,010. 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 78,283 new ordinary shares of US\$0.001 each at a price of 30.0p per share. These placings and allotments were completed during January 2018.

On 26 February 2018, the Company entered into a placing agreement to issue 313,396 new US\$0.001 ordinary shares at a 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 14,887 new ordinary shares of US\$0.001 each at a price of 30.0p per share. The placing and allotment were completed during March 2018.

Convertible Bond

On 19 January 2018, the Company entered into an extension agreement for the Convertible Bond. The maturity date extended to 19 January 2019 and the coupon rate increased from six percent (6%) per annum to seven point two percent (7.2%) per annum. All other terms remain unchanged.

Incorporation of Subsidiaries

On 20 March 2018, MiLOC Pharmaceutical (HK) Limited (“MPHK”), one of the Group’s subsidiaries, has signed a subscription agreement with Huge Port International Limited (“HPL”), a company incorporated in Hong Kong who is owned by one of our substantial shareholders, Mr. Liu Wei Hung, that HPL has agreed to invest RMB10,000,000 (Approximately £ 1,160,000) into Richmond Group Limited (“RGL”), a newly incorporated company in Hong Kong, of which HPL will own 33% of the issued share capital of RGL. MPHK is holding 57% of the shares of RGL and Mr. Yuan Fei, who is a resident of the People’s Republic of China, is holding 10% of the shares of RGL and Mr. Yuan will contribute to the business with his experience and networks in China. The principal activity of RGL is investment holding.

On 28 April 2018, RGL has set up a wholly owned subsidiary namely Star Collaboration (Guangzhou) Limited (“StarC”) in Guangzhou China with a registered capital of RMB10 million. The principal activity of StarC is the distribution of MiLOC’s TCM hair-care and skin-care products.