

Tuesday 31 May, 2011

MiLOC Group Limited

Results and change of accounting reference date

RNS Number : 5928H

MiLOC Group Limited

31 May 2011

MiLOC Group Limited
("MiLOC" or the "Company")

PLUS Symbol: ML.P

Preliminary results for the period ended 31 December 2010 and change of accounting reference date from 31 March to 31 December

The board of MiLOC Group Limited, the pharmaceutical and healthcare group, is pleased to announce the preliminary results of the Company and its subsidiaries (the "Group") for the period from incorporation on 10 February 2010 to 31 December 2010.

FINANCIAL HIGHLIGHTS

	HK\$
Revenue	128,404
Gross profit	53,274
Gross profit margin	41%
Loss for the period	(9,345,370)
Basic and diluted loss per share	(0.73)
Net cash position at 31 December 2010	10,152,313

CHAIRMAN'S STATEMENT

Dear Shareholder,

I am pleased to report the results of the Group for the period from incorporation on 10 February 2010 to 31 December 2010.

The nature of the Company's operations and its principal activities are to act as the holding company of a group engaged in (i) the research, development, marketing and distribution of traditional Chinese medicine ('TCM') and (ii) the development and operation of a network of TCM clinics and hospitals across China, Hong Kong ('HK') and Macau.

Review of significant activities

April 2010

On 8 April 2010, the Company acquired the entire issued share capital of MiLOC Pharmaceutical Limited, MiLOC Biotechnology Limited and MiLOC Medical Limited for considerations of USD1, USD 1,000 and USD 1, respectively. As at 31 December 2010, the Company has the following subsidiary undertakings:

Name of subsidiary	Principal activities
MiLOC Pharmaceutical Limited	Marketing and distribution of TCM
MiLOC Biotechnology Limited	Research and development of TCM
MiLOC Medical Limited	Operation of TCM Clinics and Hospitals
Smart Falcon Limited	Holder of TCM IP rights Operation of TCM Clinics and Hospitals

November 2010

On 22 November 2010, the Company procured the acquisition from Star Silver Investments Limited by MiLOC Biotechnology Limited, a wholly owned subsidiary of the Company, of the entire issued share capital of the entire issued share capital of Smart Falcon Limited in consideration of a sum of HK\$5,000,000 satisfied by the allocation of 805,900 ordinary shares in the capital of the Company. Smart Falcon Limited holds the intellectual property rights of a traditional Chinese medicine named Rorrico (the "TCM IP Rights").

December 2010

MiLOC was admitted to the PLUS-quoted market in December 2010.

Financial review

The Group's revenue for the period ended 31 December 2010 amounted to HK\$128K and was derived from the distribution of TCM. The Group incurred a loss of HK\$9,345K for the period. The loss was mainly attributable to (i) the Group's acquisition and subsequent development of the operation of TCM clinics and a hospital network with a view of substantially increasing the distribution of TCM and (ii) general administrative costs of HK\$9.03 million. The basic and diluted loss per share for the period was HK\$0.73. The Group's net cash position as at 31 December 2010 was HK\$10,152K.

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

Post balance sheet events

February 2011

On 9 February 2011, the Company's wholly-owned subsidiary, MiLOC Medical Limited, entered into a joint venture agreement with Modern TCM (BVI) Limited (hereinafter referred to as "Modern TCM") to develop and expand its business ("the Joint Venture"). The Joint

Venture objective is to set up and run a traditional Chinese medical clinic network in HK and seek to acquire private traditional Chinese medical practitioners to inject their clinics into the Joint Venture. Modern TCM has significant knowledge, experience and industry contacts in the traditional Chinese medical business and the Company intends to apply that knowledge and experience so as to capitalise on the many opportunities available in Hong Kong. MiLOC Medical owns a majority stake (60%) in the Joint Venture and Modern TCM owns the remaining 40%, insofar as the joint venture is operated through a company, the same will be treated as a subsidiary of the Company. The respective rights and liabilities of the partners in the Joint Venture are fully set out in the Agreement. Modern TCM will be required, inter alia, to provide clinic operating procedures (under ISO9001) as well as Intellectual Property Rights in relation to the operation of clinics.

March 2011

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

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

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

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

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

GAH owns and operates a clinic which is strategically located in the busiest part of Jordan, Kowloon District (just beside the MTR), with high human traffic flow. The clinic has a floor space size of over 5,000 square feet (which is one of the largest in the business) for an integrated service of TCM Clinic & Health Products. It currently stocks approximately 60 types of Health Products primarily from China, Hong Kong and the USA. The gross sales of the acquired clinic at the date of acquisition were HK\$626K (equivalent to GBP 50K, exchange rate: GBP1=HK\$12.55) and currently has a net loss of HK\$570K (equivalent to GBP45K). The loss is manageable and is accounted for by the costs incurred in setting up the operation of the business and covering salaries etc, while the business was developed.

April 2011

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

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

Based on the unaudited 7 months management account of ICHI from 07/2010 to 01/2011, the acquired clinic YTD sales turnover is HK\$1,725K (equivalent to GBP137K, exchange rate: 1GBP=HK\$12.55) with a net profit of HK\$256K (equivalent to GBP20K). Mr Chan Chi

Hang as Guarantor of this transaction has under the agreement warranted and guaranteed that the after tax net profit of ICHI for each of its financial years ending 31 January 2011 and 31 January 2012 respectively shall not be less than HK\$959K (equivalent to GBP 76K). Under the guarantee, if the after tax net profit is less than HK\$959K in the relevant year, Mr Chan shall compensate and make good within 30 days after completion of the audited accounts of ICHI to MiLOC the shortfall for the relevant year.

ICHI is the second clinic that we have strategically acquired in Jordan, Kowloon District, with high human traffic flow. The clinic has a floor space size of over 1,000 square feet for an integrated service of TCM Clinic. Revenue from the Vendor's business is derived from doctors' consultation and supplements.

Cases of swine flu this winter have proven rather less than originally anticipated and thus sales of Rorrico have reduced somewhat. However, Rorrico is also prescribed for influenza A, B, and common flu patients through our clinic network. The Directors remain confident that this product will prove to be a significant contributor to the Company's income for the foreseeable future.

Outlook

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

Chow Ching Fung
Chairman
31 May 2011

MiLOC Group Limited Consolidated Statement of Comprehensive Income

The consolidated statement of comprehensive income of the Group for the period from incorporation on 10 February 2010 to 31 December 2010 is set out below:

	For the period ended 31 December 2010 Unaudited HK\$'000
CONTINUING OPERATIONS	
Revenue	128
Cost of sales	(75)
Gross profit	<hr/> 53

Distribution costs	(30)
Administrative expenses	(9,528)
Foreign exchange differences	160
Operating loss	(9,345)
Finance costs	-
Interest income	-
Loss before taxation	(9,345)
Taxation	-
Loss for the period attributable to the equity holders of the parent entity	(9,345)
Other comprehensive income	-
Total comprehensive loss for the period attributable to the equity holders of the parent entity	(9,345)
Loss per share - from continuing operations (HK\$)	
Basic and diluted	(0.73)

All of the activities of the Group are classified as continuing.

The basic loss per share is calculated by dividing the loss of HK\$9,345K attributable to the equity holders of the parent entity by 12,861,144 ordinary shares, being the weighted average number of shares of the Company in issue during the period. A conditional option agreement dated 20 December 2010 between the Company and ZAI Corporate Finance Limited ("ZAI") pursuant to which the Company has granted an option to ZAI over 72,161 of Ordinary Shares. The option is exercisable by notice to the Company at the placing price at any time during the five year period commencing on the date of Admission.

MiLOC Group Limited
Consolidated Statement of Financial Position

The consolidated statement of financial position of the Group as at 31 December is set out below:

The Group
As at 31

December 2010
Unaudited
HK\$ '000

Assets

Non-current assets

Intangible assets	5,000
Goodwill	166
	5,166

Current assets

Other receivables and prepayments	515
Amount due from shareholders	98
Cash and cash equivalents	10,152
	10,765

Total assets

15,931

Equity and liabilities

Equity

Share capital	481
Share premium	22,506
Retained earnings	(9,345)
	13,642

Liabilities

Current liabilities

Other payables and accruals	2,281
Amount due to shareholders	8
	2,289

Total equity and liabilities

15,931

Basis of Preparation

The financial information for the period ended 31 December 2010 has been prepared in accordance with International Financial Reporting Standards (IFRS). The financial information set out herein is based on the transactions of the Group which, at 31 December 2010, consisted of the Company and its subsidiaries, MiLOC Pharmaceutical Limited, MiLOC Biotechnology Limited, MiLOC Medical Limited and Smart Falcon Company Limited.

The financial information has been prepared on the going concern basis of accounting which assumes adequate financial resources are available to the group for a period of at least twelve months from the date of approval of the audited financial statements. In support of this assumption the Directors have prepared detailed budgets and cash flow projections that support continuing operations from the Company's existing cash available and generated from its operations. These budgets and cash flow projections include forecasted results from the 2011 expansion of the Company's hospital and clinic network and the progress and sale of the Company's primary TCM, Rorricon, and have been reviewed and approved by the Board of Directors. As the group is still in its development phase, it should be highlighted that the ability of the group to continue as a going concern for the foreseeable future is highly dependent on the group's ability to achieve these projections.

Announcement based on unaudited accounts

The preliminary announcement for the period ended 31 December 2010 was approved and authorised for issue by the board of directors on 26 May 2011. The financial information set out in this

preliminary announcement does not constitute audited financial statements for the period ended 31 December 2010.

The financial information for the period ended 31 December 2010 is derived from draft financial statements. The audit of the financial statements for the period ended 31 December 2010 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the directors in this preliminary announcement.

The Company also announces that it has changed its accounting reference date from 31 March to 31 December.

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