31 May 2019

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

Final audited results for the year ended 31 December 2018

MiLOC Group Limited (NEX: ML.P), the NEX Exchange quoted pharmaceutical and healthcare group, is pleased to announce its audited consolidated financial statements for the year ended 31 December 2018.

Key financial highlights:

- Revenue for the year ended 31 December 2018: HK$10,673,572 (2017: HK$11,618,098)
- Loss for the year: HK$37,918,185 (2017: HK$17,269,618)
- The basic loss per share for the year: HK$0.46 (2017: HK$0.24)
- The Group's cash position as at 31 December 2018: HK$2,754,507 (2017: HK$3,891,331)

Chairman's Statement

I am very pleased to report the 2018 financial year results for MiLOC Group Limited.

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

The Group has, since its inception, invested considerable time and expense in establishing itself and introducing the concept of TCM, medical products and healthcare to the wider public. TCM is increasingly being recognised by both those providing Western medical treatment as well as the general public as a natural alternative to Western medicine and/or to work alongside Western medical treatment. The Board believes that the establishment of TCM products will make a very substantial positive contribution to the Group's revenue in a long run.

Review of significant activities

(i) Private Placings

In 2018, the Group raised HK$6.1 million 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 20 for details of private placings).

(ii) Incorporation of Subsidiaries

One of the Group's subsidiaries, MiLOC Pharmaceutical (HK) Limited ("MPHK") and Mr. Yuan Fei ("Mr. Yuan"), a third-party individual who is a resident of the People's Republic of China, have agreed to collaborate and set up a company in Guangzhou China for the distribution of MiLOC's TCM hair-care and skin-care products.

Further, one of the Group's shareholders, Mr. Liu Wei Hung, the founder member of Huge Port International Limited ("HPL"), a company incorporated in Hong Kong, has agreed to invest RMB10,000,000 into the new company in which he will own 33% of the issued share capital, under a Subscription Agreement entered into on 20 March 2018 between MPHK and HPL.

As a result, Richmond Group Limited ("RGL") was incorporated in Hong Kong having a share capital of HK$100 divided into 100 Ordinary Shares of HK$1 each and fully paid. RGL is a holding company that wholly owns Star Collaboration (Guangzhou) Limited which has been incorporated on 28 April 2018 in Guangzhou China with a registered capital of RMB10 million ("Star C"). RGL's shares are 57% held by MPHK, 33% held by HPL with the investment of RMB10,000,000 and 10% are held by Mr. Yuan who will contribute to the business with his experience and networks in China.

Financial review

(i) Revenue, gross profit and other revenue

The Group's revenue for the year ended 31 December 2018 amounted to HK$10,673,572 which represented an 8.1% decrease as compared to the year ended 31 December 2017. It included sales of TCM skincare and haircare products that amounted to approximately HK$5,479,000 (2017: approximately HK$6,516,000) and revenue from its clinic operations that amounted to approximately HK$5,194,000 (2017: approximately HK$5,102,000).

The sales revenue of TCM skincare and hair care products in 2018 has been slow as the Group has spent a longer than expected time building up more sales channels for our TCM products both in Hong Kong and Mainland China and a bigger discount on skincare products has been offered to our major distributors. The revenue from the clinic operations increased slightly by 1.8% from the health seminars that were conducted to attract new patients since the middle of 2018.

The Group's gross profit and gross profit margin for the year ended 31 December 2018 amounted to HK$3,925,171 and 37% (2017: HK$5,233,207 and 45%) respectively. The decrease in gross profit margin was the result of a lower gross profit margin for the selling of TCM plus skincare products. The Group's other revenue for the year ended 31 December 2018 amounted to HK$270K, an increase of 6.8% compared to the year ended 31 December 2017.

(ii) Operating expenses

The Group's distribution costs for the year ended 31 December 2018 amounted to HK$25,748,889 which increased by 213.96% as compared to the year ended 31 December 2017. It was mainly due to the royalty fee and commission fee related to AKFS Plus haircare brand for the year ended 31 December 2018 which amounted to approximately HK$20,114,000 and HK$3,900,000. The Group's administrative expenses for the year ended 31 December 2018 were approximately HK$15,087,000 compared to approximately HK$13,350,000 for the year ended 31 December 2017, an increase of 13.01% because of the incorporation of Star C in Guangzhou China.

(iii) Loss and loss per share

The Group's loss for the year amounted to HK$37,918,185 (2017: HK$17,269,618). As a result, the Group's basic loss per share for the year was HK$0.46 (2017: HK$0.24).

The Directors do not recommend the payment of a dividend.

(iv) Balance sheet items

The Group's tangible fixed assets as at 31 December 2018 amounted to HK$883,250 which mainly comprised of leasehold improvements, furniture and fixtures and office equipment. A decrease of approximately HK$9,000 over the balance as at 31 December 2017 mainly due to the depreciation of fixed assets and fixed assets acquired for the newly incorporated subsidiary, Star C for the year.

The Group's other intangible assets as at 31 December 2018 amounted to HK$3,928,571 which represented a decrease of approximately HK$357,000 compared to approximately HK$4,285,000 as at 31 December 2017 due to an amortisation for the year.

The Group's goodwill as at 31 December 2018 was valued at HK$46,127 with a decrease of approximately HK$440,000 compared with approximately HK$486,000 as at 31 December 2017 due to a recognised impairment for goodwill of a subsidiary.

The Group's inventories as at 31 December 2018 amounted to HK$5,724,696 with a decrease of approximately HK$1,642,000 over the balance as at 31 December 2017.

Inventories mainly consisted of TCM products and healthcare products.

The Group's trade payables as at 31 December 2018 amounted to HK$59K with a decrease of HK$310K over the balance as at 31 December 2017.

The Group's cash and cash equivalents decreased from HK$3,891K as at 31 December 2017 to HK$2,755K as at 31 December 2018. For details of these movements, please refer to the Group's cash flow statement included in the non-statutory group financial statements.

Outlook

In the year of 2018, the Group has invested more time and effort on sourcing and developing its channels of distribution in both Hong Kong and Mainland China. After actively meeting with different distributors, the Group has confirmed various distribution and sales channels including a number of online and offline sales platforms. One of the sales channels that we confirmed in 2019 includes an AKFS specialist store to be opened on tmall.com, one of the world's largest ecommerce website. Our Board anticipates that a significant amount of revenue will be generated through these channels in the coming years.

We will continue to source further development and investment opportunities and the Group is continuing to seek new business opportunities. The Group plans to launch the TCM body-care products which will be manufactured by third party OEM manufacturer in the foreseeable future.

The Group will continue to work towards its immediate and long term objective to expand its TCM based product portfolio by actively promoting the TCM Fast-Moving Consumer Goods ("FMCG") business while continuing to maintain and provide professional TCM services to our patients. By introducing a series of TCM FMCG product ranges, including skin-care, hair-care and body-care products under the brand name of "MiLOC", the Group believes that it will promote a TCM culture and products to different customers and eventually will lead to more business and positive revenue to the Group.

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

Chow Ching Fung
Chairman

The financial information in this announcement is derived from the Group's audited consolidated financial statements for the year ended 31 December 2018 which are available at the Company's website www.miloc.com.

The Directors of the Company accept responsibility for the contents of this announcement.

For further information, please contact:-

MiLOC
ONG Ban Poh Michael - Chief Executive Officer Tel: +852 2110 4221
Ronnie CHOI – Chief Financial Officer

NEX Exchange Corporate Adviser Tel: +44 (0) 20 7469 0930
PETERHOUSE CAPITAL LIMITED
Guy Miller
Mark Anwyl

MiLOC Group Limited
Consolidated Statement of Comprehensive Income
For the year ended December 2018

	Notes	2018		2017
From continuing operations		*HK$*		*HK$*
Revenue	*4*	10,673,572		11,618,098
Cost of sales		(6,748,401)		(6,384,891)
Gross profit		3,925,171		5,233,207
Other revenue	*4*	270,556		253,146
Distribution costs		(25,748,889)		(8,201,371)
Administrative expenses		(15,087,535)		(13,350,470)
Foreign exchange gain/ (loss), net		(596,250)		(282,949)
Adjusted Operating loss	*5*	(37,236,947)		(16,348,437)
Impairment loss for intangible asset and goodwill		(439,872)		(439,872)
Operating loss		(37,676,819)		(16,788,309)
Loss on disposal of subsidiaries		(20,099)		-
Finance costs	*6*	(227,447)		(481,311)
Interest income		6,180		2
Loss before taxation		(37,918,185)		(17,269,618)
Taxation	*7*	-		-
Loss for the for year		(37,918,185)		(17,269,618)
Other comprehensive income		-		-
Total comprehensive result for the year		**(37,918,185)**		**(17,269,618)**
Attributable to:				
The equity holders of the parent entity		(35,225,225)		(17,269,618)
Non-controlling interests		(2,692,960)		-
Loss per share – from continuing operations (HK$)		(37,918,185)		(17,269,618)
Basic	*10*	(0.46)		(0.24)

MiLOC Group Limited
Consolidated Statement of Financial Position
As of 31 December 2018

	Notes	As at 31 December 2018 HK$	As at 31 December 2017 HK$
Assets			
Non-current assets			
Fixed assets	11	883,250	892,342
Other intangible assets	12	3,928,571	4,285,714
Goodwill	13	46,127	485,999
		4,857,948	5,664,055
Current assets			
Inventories	15	5,724,696	7,366,776
Trade receivables	16	59,528	369,824
Other receivables and prepayments	17	2,540,722	776,015
Cash and cash equivalents	19	2,754,507	3,891,331
		11,079,453	12,403,946
Total assets		**15,937,401**	**18,068,001**
Equity and liabilities			
Equity			
Share capital	20	598,333	582,022
Share premium		71,417,033	65,027,334
Retained earnings		(102,618,307)	(67,413,478)
Equity attributable to the parent entity		(30,602,941)	(1,804,122)
Non-controlling interests		9,819,050	-
Total equity		(20,783,891)	(1,804,122)
Liabilities			
Current liabilities			
Trade payables		904,845	934,687
Other payables and accruals	21	28,274,069	11,459,155
Amounts due to directors	18	2,101,056	2,111,056
Borrowings	22	5,441,322	-
		36,721,292	14,504,898
Non-current liabilities			
Borrowings	22	-	5,367,225
Total liabilities		36,721,292	19,872,123
Total equity and liabilities		**15,937,401**	**18,068,001**

MiLOC Group Limited
Consolidated Statement of Cash Flows
For the year ended 31 December 2018

	Notes	As at 31 December 2018		As at 31 December 2017
		HK$		*HK$*
OPERATING ACTIVITIES				
Cash used in operations	*23*	(19,007,603)		(10,845,052)
INVESTING ACTIVITIES				
Purchase of fixed assets		(900,071)		(2,400)
Interest received		6,180		2
Net cash used in investing activities		(893,891)		(2,398)
FINANCING ACTIVITIES				
Issuance of shares		6,406,010		11,693,358
Proceed received for incorporation of a subsidiary		12,512,010		-
Interest paid		(153,350)		-
Net cash generated from financing activities		18,764,670		11,693,358
Net increase in cash and cash equivalents		1,136,824		845,908
Cash and cash equivalents at beginning of year		**3,891,331**		**3,045,423**
Cash and cash equivalents at end of year		**2,754,507**		**3,891,331**

4. REVENUE AND SEGMENT INFORMATION

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

	2018		**2017**
	HK$		***HK$***
Revenue			
Sales of TCM healthcare and skincare products	5,479,765		6,516,331
Provision of TCM healthcare services	5,193,807		5,101,767
	10,673,572		11,618,098
Other revenue			
Management fee	264,000		240,000
Others	6,556		13,146
	270,556		253,146
Total revenue and other revenue	10,944,128		11,871,244

32.92% of revenue (2017: 37.35%) 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.

(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 and China.

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

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

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

Information regarding the Group’s reportable segments as provided to the Group’s senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2018 and 2017 is set out below:

	For the year ended 31 December 2018		
	Sale of TCM Healthcare and Skincare Products	**TCM Healthcare Services**	**Total**
	HK$	***HK$***	***HK$***
Revenue - External sales	5,479,765	5,193,807	10,673,572
Cost of sales	(4,159,943)	(2,588,458)	(6,748,401)
Gross profit	1,319,822	2,605,349	3,925,171
Other revenue	596	269,960	270,556
Distribution costs	(25,694,086)	(54,803)	(25,748,889)
Administrative expenses	(8,398,207)	(2,796,369)	(11,194,576)
Segment profit/(loss)	(32,771,875)	24,137	(32,747,738)
General group operating costs (including professional fees and directors remuneration)			(4,489,209)
Operating loss			(37,236,947)
Impairment loss for goodwill			(439,872)
Loss on disposal of subsidiaries			(20,099)
Finance costs			(227,447)
Interest income			6,180
Loss before taxation			(37,918,185)
Taxation			-
Loss for the year			(37,918,185)

	For the year ended 31 December 2018				
	Sale of TCM Healthcare and Skincare Products		TCM Healthcare Services		Total
	HK$		*HK$*		*HK$*
Additions of					
- Fixed assets	780,071		120,000		900,071
Depreciation of					
- Fixed assets	872,878		36,285		909,163
Segment assets	9,386,108		6,549,163		15,935,271
Segment liabilities	26,666,571		4,184,268		30,850,839

	For the year ended 31 December 2017				
	Sale of TCM Healthcare and Skincare Products		TCM Healthcare Services		Total
	HK$		*HK$*		*HK$*
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 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**
	HK$		***HK$***		***HK$***
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

(b) Reconciliation of reportable segment assets and liabilities

	As at 31 December 2018		**As at 31 December 2017**
	HK$		***HK$***
Assets			
Reportable segment assets	15,935,271		17,813,435
Unallocated head office and corporate assets	2,130		254,566
Consolidated total assets	15,937,401		18,068,001
Liabilities			
Reportable segment liabilities	30,850,839		9,191,294
Unallocated head office and corporate liabilities	5,870,453		10,680,829
Consolidated total liabilities	36,721,292		19,872,123

(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.

5. ADJUSTED OPERATING LOSS

Adjusted operating loss is arrived at after charging the following:

	2018		2017
	HK$		*HK$*
Auditor's remuneration	294,315		300,323
Cost of inventories expensed	4,042,351		3,638,602
Depreciation of fixed assets	909,163		1,097,861
Inventories written down	117,592		-
Operating lease charges: properties	3,585,810		2,614,714
Exchange loss / (gain), net	596,250		282,949

6. FINANCE COSTS

	2018		2017
	HK$		*HK$*
Interest	(227,447)		(481,311)
	(227,447)		(481,311)

The fair value movement on derivative and interest are generated from borrowings stated in note 22.

7. TAXATION

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

		2018		2017
		HK$		*HK$*
Loss before taxation		37,918,185		17,269,618
Loss multiplied by standard rate of corporation tax in Hong Kong of 16.5%		(6,256,500)		(2,849,487)
Effect of:				
Items not deductible for tax purposes		641,229		510,126
Items deductible for tax purposes		(30,287)		(17,462)
Losses carried forward		5,645,558		2,356,823
		-		-

The amount of losses that are available but in respect of which no deferred tax asset has been recognised amounted to HK$67,698,743 (2017: HK$41,577,434). No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

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

	2018		2017
	HK$		*HK$*
Salaries, wages and other benefits	3,793,663		3,283,959
Contributions to defined contribution plan	250,394		155,184
	4,044,057		**3,439,143**

9. COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2018		2017
	HK$		*HK$*
Salaries and other short-term benefits:			
-Salaries and allowances	3,360,000		3,360,000
-Retirement scheme contribution	30,000		30,000
	3,390,000		**3,390,000**

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

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

10. EARNING PER SHARE – BASIC

Basic

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

	2018		2017
	HK$		*HK$*
Losses attributable to equity holders of parent entity	(35,225,225)		(17,269,618)

Number of shares			
Weighted average number of ordinary shares in issue	76,797,868		72,309,826
Loss per share	0. 46		0. 24

11. FIXED ASSETS

		Leasehold improvements	**Furniture & fixtures**	**Office equipment**	**Total**
		HK$	***HK$***	***HK$***	***HK$***
Cost 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
Accumulated Depreciation 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
Net book value					
At 31 December 2017		780,664	11,984	99,694	892,342
Cost At 1 January 2018		2,308,039	82,487	420,600	2,811,126
Written off		-	-	(20,918)	(20,918)
Additions		477,368	100,622	322,081	900,071
At 31 December 2018		2,785,407	183,109	721,763	3,690,279
Accumulated Depreciation At 1 January 2018		1,527,375	70,503	320,906	1,918,784
Written off		-	-	(20,918)	(20,918)
Charge for the year		821,397	4,200	83,566	909,163
At 31 December 2018		2,348,771	74,703	383,554	2,807,029
Net book value					
At 31 December 2018		436,636	108,406	338,209	883,250

12. OTHER INTANGIBLE ASSETS

	Patent of Rorrico	Total
	HK$	*HK$*
Cost		
At 1 January 2017	5,000,000	5,000,000
At 31 December 2017	5,000,000	5,000,000
Accumulated amortisation		
At 1 January 2017	357,143	357,143
Amortisation for the year	357,143	357,143
At 31 December 2017	714,286	714,286
Net book value		
At 31 December 2017	4,285,714	4,285,714
Cost		
At 1 January 2018	5,000,000	5,000,000
At 31 December 2018	5,000,000	5,000,000
Accumulated amortisation		
At 1 January 2018	714,286	714,286
Amortisation for the year	357,143	357,143
At 31 December 2018	1,071,429	1,071,429
Net book value		
At 31 December 2018	3,928,571	3,928,571

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 Paten (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 began 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.

13. GOODWILL

		2018 HK$		***2017 HK$***
Balance at the beginning of the year		485,999		925,871
Impairment for the year		(439,872)		(439,872)
Balance at the end of the year		46,127		485,999

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

The carrying value of Goodwill relating to the clinic at 31 December 2017 was HK$485,999, during the year the recoverable amount of this asset was assessed to be HK$46,127 and the assets associated with this cash generating unit have been written down to HK$46,127 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:

		2018		***2017***
Gross margin		47%		47%
Growth rate		0%		0%
Discount rate		17%		17%

14. INTEREST IN SUBSIDIARIES

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

Name of subsidiary	Date and place of incorporation	%	Acquired from:	Principal activities
Interests held directly by the Company:				
Cash generating unit:				
MiLOC Pharmaceutical Limited	20 November 2009, BVI	100%	Professor Chow Ching Fung	TCM sales and distribution
MiLOC Medical Limited	16 March 2010, BVI	100%	Professor Chow Ching Fung	TCM Clinics
Non-cash generating unit:				
MiLOC Biotechnology Limited	6 November 2009, BVI	100%	Professor Chow Ching Fung and ONG, Ban Poh Michael	Research and development
Interests held indirectly by the Company:				
Cash generating unit: MiLOC Pharmaceutical (HK) Ltd	9 March 2011, HK	100%	N/A	Retailing and wholesaling of healthcare and skincare and related products
MiLOC Clinics Limited	15 February 2011, BVI	100%	N/A	Receipt of royalty fee from clinics
MiLOC Medical Limited	24 January 2011, HK	100%	N/A	Provision of medical services
MiLOC Medical Jor1 Limited	25 September 2007, HK	100%	Golden Ace Holdings Limited	Provision of Chinese medical services
MiLOC Store Limited	18 October 2010, HK	100%	Golden Ace Holdings Limited	Retailing and wholesaling of healthcare and related products
上海殿舜媚生物科技有限公司	15 November, 2016, PRC	100%	N/A	Retailing and wholesaling of haircare products
Star Collaboration (Guangzhou) Limited	28 April, 2018, PRC	57%	N/A	Retailing and wholesaling of haircare products

Non-cash generating unit:				
Smart Falcon Limited	3 December 2009, BVI	100%	He Yu and Professor He Zhong Sheng	Holding company of intellectual property rights, including the Rorrico patent
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
Richmond Group Limited	18 January 2018, HK	57%	ONG, Ban Poh Michael	Investment holding company

On 18 January 2018, the Company acquired 57% share of a subsidiary Richmond Group Limited. On 28 April 2018, the Company established a subsidiary Star Collaboration (Guangzhou) Limited.

15. INVENTORIES

The inventories as at 31 December 2018 and 2017 are as follows.

		2018		2017
		HK$		***HK$***
Finished goods		5,724,696		7,366,776
Provision for the year		-		-
		5,724,696		7,366,776

16. 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.

17. OTHER RECEIVABLES AND PREPAYMENT

		2018		2017
		HK$		**HK$**
Deposits paid		935,475		622,950
Other receivables		1,574,327		153,065
Prepayment		30,920		-
		2,540,722		776,015

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

18. RELATED PARTY TRANSACTIONS

Transactions between the Group and its related parties as at 31 December 2018 and 2017 were as follow:

	2018	2017
	HK$	*HK$*
Amount due to directors	2,101,056	2,111,056

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

Apart from the above amount from/to the related companies, significant transactions between the Group and its related parties for the 31 December 2018 and 2017 were as follows:

	2018	2017
	HK$	*HK$*
Purchases from Green Health Supplement International Company	461,585	364,753

At 31 December 2018, the trade payable to Green Health Supplement International Company is HK$438,669 (2017: HK$482,301)

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

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2018 and 2017 comprise:

	2018	2017
	HK$	*HK$*
Cash at bank and in hand	2,754,507	3,891,331

20. SHARE CAPITAL

		2018	2017
		HK$	**HK$**
Authorised,			
100,000,000 ordinary shares of US$0.001 each		780,000	780,000

Allotted and fully paid:			
No. of shares:			
At the beginning and end of the year		74,777,903	70,815,289
Issuance of shares		2,091,117	3,962,614
At the end of the year		76,869,020	74,777,903
Amount:			
At the beginning and end of the year		582,022	551,114
Issuance of shares		16,311	30,908
At the end of the year		598,333	582,022

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 consultants 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 an agreement to issue 313,396 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$1,000,000. The Company also agreed to pay a referral fee of 5% of the fundraising amount to a consultant of the Company by allotting and issuing a total of 14,887 new ordinary shares of US$0.001 each at a price of 30.0p per share. These placings and allotments were completed during March 2018.

21. OTHER PAYABLES AND ACCRUALS

	2018	2017
	HK$	***HK$***
Contract liabilities	849,229	381,727
Accruals and other creditors	27,424,840	11,077,428
	28,274,069	11,459,155

Significant changes in the contract liabilities balance during the period are as follows.

	2018	2017
	HK$	***HK$***
Revenue recognised that was included in the contract liability balance at the beginning of the year	222,047	162,754
Increases due to cash received, excluding amounts recognised as revenue during the year	689,549	233,708

22. BORROWINGS

	2018	2017
	HK$	*HK$*
Due within one year	5,441,322	-
	5,441,322	-
Due are more than one year but less than two years	-	5,367,225
	-	5,367,225

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

On 19th January 2019, the Company revised principal terms are as follows:

Maturity date : 19 January 2020
Interest rate : 8% 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$84k.

At 31 December 2017 and 2018 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 2017. The interest on the loan to 31 December 2018 was HK$227k (2017 HK$481k).

23. CASH USED IN OPERATIONS

Reconciliation of loss before taxation to cash used in operations:

	2018	2017
	HK$	*HK$*
Loss before taxation	(37,918,185)	(17,269,618)
Adjustments:		
Depreciation of fixed assets	909,163	1,097,861
Amortisation of intangible assets	357,143	357,143

Impairment loss for intangible asset and goodwill	439,872	439,872
Loss on disposal of subsidiaries	20,396	-
Interest income	(6,180)	(2)
Interest expenses	227,447	481,311
Operating cash flow before changes in working capital	(35,970,344)	(14,893,433)
Decrease in inventories	1,642,080	557,182
Decrease / (increase) in trade receivables	310,296	(134,076)
(Increase) / decrease in other receivables and prepayments	(1,764,707)	123,158
Decrease in trade payables	(29,842)	(5,400,846)
Increase in other payables and accruals	16,814,914	8,903,273
Decrease in amount due to shareholders	(10,000)	(310)
Cash used in operations	(19,007,603)	(10,845,052)

Reconciliation of liabilities arising from financing activities:

	Note	31 December 2017	Interest paid	Fair value movement / interest accrued	31 December 2018
Borrowings	22	5,367,225	(153,350)	227,447	5,441,322
	Note	31 December 2016	Interest paid	Fair value movement / interest accrued	31 December 2017
Borrowings	22	4,885,914	-	481,311	5,367,225

24. COMMITMENTS UNDER OPERATING LEASES

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

	2018	2017
	HK$	*HK$*
Not later than one year	3,366,486	1,532,100
Later than one year but less than five years	,5,511,148	295,156
	8,877,634	1,827,256

25. COMMITMENTS

The Group had future aggregate minimum payments under royalty agreements as follows:

		2018		2017
		HK$		*HK$*
Not later than one year		60,540,480		-
Later than one year but less than five years		45,405,360		-
		105,945,840		-

26. FINANCIAL ASSETS AND RISK

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

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

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

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

		2018		2017
		HK$		*HK$*
		Loan and receivables		**Loan and receivables**
Financial assets				
Trade receivables		59,528		369,824
Other receivables		1,574,327		153,065
Cash and cash equivalents		2,754,507		3,891,331
		4,388,362		4,414,220
		Other financial liabilities		**Other financial liabilities**
Financial liabilities				
Trade payables		904,845		934,687
Borrowings		5,441,322		5,367,225
Amount due to directors		2,101,056		2,111,056
Accruals		27,424,217		6,056,428
		35,871,440		14,469,396

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

Credit risk

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

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

		2018		2017
		HK$		*HK$*
Trade receivables		59,528		369,824
Other receivables		1,574,327		153,065
Cash and cash equivalents		2,754,507		3,891,331
		4,388,362		4,414,220

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$27,545 (2017: HK$38,913). 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.

		2018		2017
		HK$		*HK$*
Financial liabilities due within one year				
Trade payables		904,845		934,687
Amount due to directors		2,101,056		2,111,056
Accruals		27,424,217		6,056,428
Borrowings		5,441,322		-
		35,871,440		9,102,171

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.

The group has a borrowing of HK$5,441,322 that is due for repayment in January 2020, 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$2,599,537 (2017: HK$323,406) 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$259,953 (2017: US$32,340).

27. 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.

28. POST BALANCE SHEET EVENT

Strategic Cooperation Agreement

On 4 January 2019, Star Collaboration Guangzhou Limited ("Star C"), one of the Group's subsidiaries, has entered into a strategic cooperation agreement (the "Agreement") with China Post Advertising Co., Ltd. (中国邮政广告有限责任公司), a company incorporated in China ("China Post Advertising").

Under the agreement, the parties agreed actively to cooperate in advertising, marketing and sales of Aaron Kwok's exclusive brand AKFS+ hair care products ("AKFS+ products") and all future celebrities co-branded products ("Products"). The parties also agreed to design a series of limited edition post cards of the celebrities to be issued and sold through China Post. Advertising

Post Advertising has agreed to share its channels, media and data resources with MiLOC.

Further, China Post Advertising will also assist in the collaboration for the distribution channels with a joint venture between China Post Group and TOM Group Limited known as “ULE.COM”. ULE.COM is a unique and innovative shopping service platform that combines high-end online shopping and offline retail services with online shop and franchised convenience shops. The Agreement provides for a strategic cooperation for brand promotion and sales of the Products.

Convertible Bond

On 19 January 2019, the Company entered into an extension agreement for the Convertible Bond. The maturity date extended to 19 January 2020 and the coupon rate increased from seven point two percent (7.2%) per annum to eight percent (8%) per annum. All other terms remain unchanged. Further details are disclosed in note 22.

Significant Endorsement Agreement and Commission Agreement

On 21 January 2019, one of the Group’s wholly owned subsidiary, MiLOC Pharmaceutical (HK) Limited (“MPHK”), entered into agreements with Koo Tin-lok (otherwise Louis Koo) , a widely known actor and entertainer in Hong Kong (the "Artist") to collaborate and work together to create a new brand of a range of TCM body care and body wash products, which contain traditional Chinese herbal ingredients (the “Body-care Products”). The Parties also agreed to cooperate in the production, design, marketing and distribution of the Body-care Products.

One of the agreements is an Endorsement Agreement with Master Kingdom Limited (“the Artist’s Management Company”) (“the Parties”). The Endorsement Agreement shall when commence on the date when the Body-care Products become available for purchase in the open market within the territories stipulated by the Endorsement Agreement ("Launch Date"), which is to be agreed by all parties in writing, and will continue for a period of three years after the Launch Date (“the Term”). The Artist’s Management Company grants to MPHK the exclusive and unlimited right and license to use and exploit the name and collaboration of the Artist in all forms of media, in connection with the endorsement, sales, advertising and promotion of the Body-care Product. The Artist’s Management Company has undertaken to procure that the Artist will provide such services as may be required to facilitate such use and exploitation.

MPHK has also entered into a Commission agreement with the agents responsible for the introduction of the Artist’s Management Company and negotiating the terms of the Endorsement Agreement. The Commission Agreement shall come into force on the Launch Date or (if different) such other date as shall be agreed between the parties in writing.

The proposed Chinese and English logos in respect of the Body-care Products have been confirmed by the Parties. Applications for registration of the Chinese and English Trademarks have been made in Mainland China and Hong Kong SAR. The bottling design and ingredients of the Body-care Products are at the final stage. The Company will also be pursuing marketing activities and partnerships to ensure maximum media exposure of the products, which includes both online and offline marketing.

The Company is anticipating the Product to be launched soon in 2019.

Private Placings

In February 2019, the Company entered into placing agreements with three individual shareholders to issue 210,801 new US$0.001 ordinary shares at a placing price of 30p per share to raise approximately HK$661,859. The shareholders are arranging trading accounts to be opened in London to receive the placing shares, therefore the placing and allotment are expected to be complete on or before 30 June 2019.

On 4 May 2019, the Company entered into placing agreements with two individual shareholders to issue 1,170,528 new US$0.001 ordinary shares at the placing price of 28.5p per share to raise approximately HK$3,542,100. 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 55,600 new ordinary shares of US$0.001 each at a price of 30.0p per share. These placings and allotments were completed on 21 May 2019.