Annual Report 2019

Medtecs International Corporation Limited

美德醫療集團年報

A Corporation listed on the Catalist Board of the Singapore Exchange Securities Trading Limited

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MEDTECS
INTERNATIONAL CORPORATION LIMITED

Annual Report 2019

Corporate Profile

Taiwan Taipei Office

Medtecs International Corporation Limited (the **"Company"**) is a well-known healthcare products and services provider and a leading manufacturer of medical consumables. The Company and its subsidiaries (collectively, the "Group") commenced operations in the Philippines in 1989 and has since established a strong presence in the United States, Europe and Asia Pacific. The Group has offices and facilities spanning across Asia – in Singapore, Taiwan, the Philippines, the People's Republic of China ("China") and Cambodia. The Group was listed on Singapore Dealing and Automated Quotation System (SESDAQ) of the Singapore Exchange Securities Trading Limited ("SGX-ST") on 6 October 1999 and transitioned to sponsor-supervised regime on Catalist with R & T Corporate Services Pte. Ltd. as its continuing sponsor on 26 February 2010. The Group's Taiwan Depository Receipts ("TDR") are listed on the Taiwan Stock Exchange (TWSE) since 13 December 2002.

The Group's main lines of business include Original Product Manufacturing (OPM) and providing integrated hospital services. As an original product manufacturer of a wide range of medical consumables, and hospitals and work wear apparels, the Group maintains manufacturing facilities located in the Philippines, China and Cambodia. As a hospital

Cambodia Factory

services provider, the Group provides hospitals in Taiwan and the Philippines with integrated services which include rental and laundry of linens, management of laundry facilities, hospital automation and other non-core hospital functions. In Taiwan, the Group is currently the dominant total solutions provider for such hospital services, with a customer base of 24 hospitals. The Group has also successfully expanded its hospital service in the Philippines, covering 32 hospitals.

The Group anticipates and plans for the future with the following initiatives. We will continue to implement new processes and invest in equipment upgrades to increase overall efficiency, while at the same time, strive to protect the environment; on the other hand, we will strengthen our current market position by increasing our e-commerce capabilities to explore new business opportunities. In terms of hospital service operations, we will gradually incorporate environment-friendly and energy-efficient materials, as well as QR Codes and RFID tags in our supply chain management to improve operational efficiency and service quality.

Philippines Factory

China Factory

Corporate Structure

Medtecs
International Corporation Limited
(MICL) (Bermuda)

Medtecs International Corporation Limited Philippine Branch
(Philippines) 100%

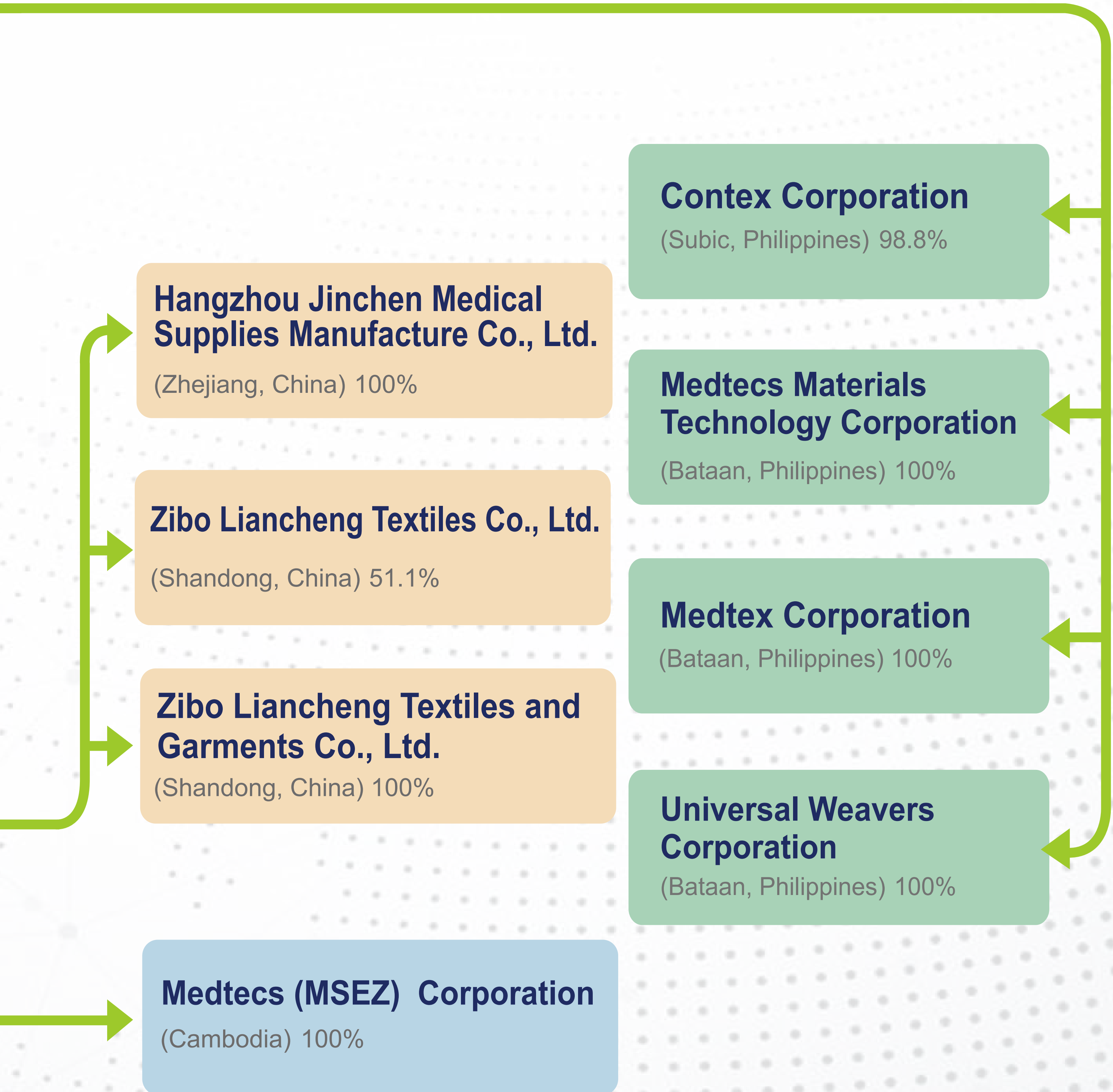
Medtecs (Asia Pacific) Pte. Ltd.
(Singapore) 100%

Medtecs (Cambodia) Corporation Limited
(Cambodia) 100%

Medtecs (Far East) Limited
(Hong Kong, China) 100%

Cooper Development Limited
(Labuan, Malaysia) 100%

Medtecs (Taiwan) Corporation
(Taiwan) 100%


Contex Corporation
(Subic, Philippines) 98.8%
Hangzhou Jinchen Medical Supplies Manufacture Co., Ltd.
(Zhejiang, China) 100%
Medtecs Materials Technology Corporation
(Bataan, Philippines) 100%
Zibo Liancheng Textiles Co., Ltd.
(Shandong, China) 51.1%
Medtex Corporation
(Bataan, Philippines) 100%
Zibo Liancheng Textiles and Garments Co., Ltd.
(Shandong, China) 100%
Universal Weavers Corporation
(Bataan, Philippines) 100%
Medtecs (MSEZ) Corporation
(Cambodia) 100%

Chairman's message

Dear Shareholders

I am pleased to present to you the operational and financial results of Medtecs International Corporation Limited and its subsidiaries (**the Group**) for the financial year ended 31 December 2019 (**FY19**), as well the Group's 2020 outlook.

Clement, Yang Ker-Cheng
Chairman

The Year 2019 in Review

Steady financial performance

The Group had more stable demand from its existing customers in FY19 leading to an increase in the Group's revenue by 1.0% to US$69.0 million in FY19, compared to US$68.3 million in the previous year. Revenues from the Original Product Manufacturing ("**OPM**") division increased by 1.3% to US$52.9 million in FY19 from US$52.2 million in FY18 due to higher orders from our existing customers. Revenues from Hospital Services division increased by 2.2% to US$14.3 million in FY19 attributable to higher linen consumptions in Taiwan and additional hospital contracts in the Philippines. The Group's net profit increased to US$1.2 million in FY19 from US$914,000 in FY18 coming from higher revenues and improved efficiency.

Reaping the benefits of the groundwork laid for the Group's long-term development and growth

In 2019, the groundwork we laid in 2018 for optimizing production, sales, human resources, development and finance had gradually taken effect and improved Group's overall operations. These improvement projects included:

1. Development of new markets as well as search for new suppliers of raw materials and trimmings through various e-commerce platforms.
2. Merging of the Group’s International & Domestic Business Department together with the Procurement Department to optimize manpower allocation.
3. Introduction of a customer relationship management (**CRM**) system into our daily workflow.
4. Mobilization of each of the Group’s production site to formulate an operational and management plan to increase efficiency.

In 2019, we also re-launched the 5-S program (sort, streamline, shine, standardize and strive) to manage our workplace across all production sites and offices. At the same time, we launched the 4-S initiative aimed at reducing our overall consumption of water, electricity, fuel, and paper so as to reduce the Group’s environmental impact and operating costs. Moreover, installation of an enterprise resource planning (**ERP**) system and the CRM system have led to increased efficiency and competitiveness, reduced operating costs and leading to better internal control.

Outlook for 2020

Business is expected to grow

Most top research institutes have not been optimistic about the macroeconomic outlook of 2020 for the world’s leading economies. However, as an established supplier of medical consumables and personal protective equipment and as a trusted provider of hospital services, we can leverage our “Medtecs” brand name to better serve demand and increase our market share in countries which we already have a presence in, namely, Taiwan, the Philippines, Mainland China and Cambodia, while at the same time, we have the opportunity to help the Group's products break into markets such as United States, Europe and Japan. The global demand for personal protective equipment had spiked and currently remains high due to the coronavirus disease (“**COVID-19**”) outbreak in early 2020, which is expected to propel the Group’s overall business growth.

Moving towards a sustainable future

Guided by our core values of "Customer Focus, Valuing Our People, Sustainable Practices", the Group will continue to increase the percentage of automation in our manufacturing process, improve energy efficiency, step up efforts for employee education and supplier management, and allocate more resources to ensure workplace safety and responsible waste management.

The COVID-19 crisis has increased general awareness of the Group's brand and products. At the same time, various projects to improve the overall competitiveness of the Group have been put in place. Our staff morale is high, and in particular, ever since the introduction of TARPS (Teamwork, Accountability, Reward & Punishment and Solution-Oriented) as our management philosophy, we have seen a change in our corporate culture for the better. Whatever the challenges that may lie ahead, we are confident that we will be able to leverage on our strengths as a trusted healthcare services and personal protective equipment provider to create value and bring positive changes for not just our shareholders but also our stakeholders.

Acknowledgement

I want to thank our board of directors for their guidance and support, our management team for their hard work and dedication, all our employees for their continuous contributions, and all our shareholders for continued trust in and support of the Group. Thank you!

Clement, Yang Ker-Cheng
Chairman

Financial Review

Business Overview

The Group had more stable demand from its existing customers in FY19 leading to an increase in Group's revenue by 1.0% to US$69.0 million in FY19 from US$68.3 million in FY18. The Group's net profit increased to US$1.2 million in FY19 from US$914,000 in FY18 coming from higher revenues and improved efficiency.

Revenue

Revenues from the Original Product Manufacturing ("OPM") division increased by 1.3% to US$52.9 million in FY19 from US$52.2 million in FY18 due to higher orders from our existing customers.

Revenues from Hospital Services division improved by 2.2% to US$14.3 million in FY19 from US$14.0 million in FY18 attributable to higher linen consumptions in Taiwan and additional hospital contracts in Philippines. Revenues from Trading, Distribution and others decreased by 15.4% to US$1.8 million in FY19 from US$2.1 million in FY18 focusing on higher-margined sales.

Profitability

The Group's gross profit increased by 2.4% to US$10.5 million in FY19 from US$10.3 million in FY18 arising from higher revenues. The Group's gross profit margins increased from improved efficiency to 15.3% in FY19 from 15.1% in FY18.

Gross Profit from the OPM division increased by 5.6% to US$9.4 million in FY19 from US$8.9 million in FY18 attributable to higher revenues. OPM Gross profits margins inclined slightly by 0.7% to 17.7% in FY2019 from 17.0% in FY18 from improved efficiency.

Hospital Services division gross profit decreased by 34.2% to US$0.6 million in FY19 from US$1.0 million in FY18 from additional rental income during the year.

Gross Profit from Trading, Distribution and other division increased by 26.9% to US$486, 000 in FY19 from US$385,000 in FY18 due to higher-margined sales.

Other operating income net increased by 69.0% to US$759,000 in FY19 from US$449,000 in FY18 from foreign exchange gains.

Financial income increased by 88.3% to US$209,000 in FY19 from US$111,000 in FY18 due to additional interest income.

The Group's net profit increased by 27.6% to US$1.2 million in FY19 from US$914,000 in FY18 from higher revenues and improved efficiency.

"Profitability improved by 27.6% to US$1.2 million in FY2019"

Cash Flows and Balance Sheet

Total assets of the Group increased by US$3.7 million to US$116.6 million in FY19 from US$112.9 million in FY18 mainly from impact of FRS16 and recognition of right of use assets. The Group's borrowings increased to US$42.5 million in FY19 from US$40.8 million in FY18 from new bank loans.

The Group generated an operating cash flow of US$4.4 million in FY19 from the positive operating cash flow of US$5.6 million in FY18.

On its investing activities, US$4.6 million was used for the installation of new machineries and various factory and office equipments and linen replacement on existing hospital contracts as well as additional linens for the new hospital services contract. Cash inflow of US$3.6 million from financing activities due to availments of new short-term loans in Taiwan was offset by cash outflow of US$4.7 million payment of long-term loans and interests.

Business Outlook and Prospects

Business Outlook

The recent COVID-19 pandemic has increased awareness and demand on the Group's healthcare related products. The Group remains at the forefront of safety and disease control prevention and management with its personal protective apparels.

At the same time, the Group continues to grow its market in US, Europe and Asia Pacific regions. The local domestic markets in Asia Pacific like Singapore, Philippines and China has remained to be growth areas for the Group.

With the propensity of hospitals to tap the linen-leasing and linen management service lines, the Group sees continued growth in the Hospital Services business.

Cost factors especially raw material, labour and energy remain to be a challenge. The Group is looking for ways on improving efficiencies and cost control measures to counter rising material and energy costs.

The Group will leverage on the cost-efficient Cambodia production base and expand the facemask production in the Philippines to improve efficiency and increase capacity.

Barring unforeseen circumstances, the Group expects to be more profitable in the financial year ending 31 December 2020.

"OPM remains the flagship division of the Company"

Original Product Manufacturing

Original Product Manufacturing remains the dominant segment in the Group in terms of revenue and profitability.

With the COVID-19 pandemic, the Group will expand its Philippine production base to increase the capacity of our facemask and personal protective apparels. This has also brought in a heightened awareness on our other healthcare and safety products and we can see growth in our existing European, North American and Asia pacific customer base.

We are also looking to reach out to potential new customers on previously untapped markets through e-commerce platforms. The local market in the Asia Pacific region remains a growth area for the group. We see a stable demand for consumables and other products in the healthcare, hospitality and personal protective apparels.

We have streamlined our operations and improved on our processes to boost productivity. We have strengthened our presence in Cambodia with manufacturing facilities in Kampong Cham and Bavet, Cambodia. We have also expanded our facemask production base in Bataan, Philippines to cope up with global demand.

"Expand market share in Taiwan and Philippines"

Hospital Services

Our Hospital Services division provides us with a stable source of income. We are looking to strengthen our market presence and grow our market share in both Philippines and Taiwan with more hospitals outsourcing trend for non-core hospital operations over the region. We are also undertaking cost-reduction procedures to optimize margins on this segment.

“Vigilance against future pandemics will open up trading opportunities”

Trading and Distribution and Others

Our trading and distribution business is critical to the Group not only as a stand-alone profit center but also provides auxiliary support to our other divisions. The Group is on the lookout for more opportunities for its personal protective apparel in view of heightened awareness on health and environmental concerns. The Group has tapped some leasehold property to become revenue generating units from new rental tenants.

“Devoted R&D efforts to innovating our products and better customer support”

Research and Development

The Group operates in a labor-intensive industry. With falling fertility rate and an aging population in Taiwan, as well as the increase in wages in our major production sites such as Cambodia and the Philippines we must increase our productivity to minimize any potential loss of profit. The solution is to systematically automate our manufacturing processes. To that end, in 2019, we fully automated our production lines for disposable surgical shoe covers. On top of that, we installed an additional 5 sets of suspension systems in our factories in Cambodia to improve the production efficiency of coveralls.

Our Research & Development activities focus not just on improving our workflow but also on designing products for better patient care and enhanced user experience. In 2019, we added the following to our product portfolio:

- Reusable waterproof incontinence underpad (patented), which has a 3-layer design and is super lightweight and quick-dry.
- L- and V-shaped pillows (patented), which provide general support to optimize sleeping and sitting comfort.
- Our specially treated fabrics with anti-viral and dirt-repellent properties have passed the anti-virus test (ISO 18184) and met JIS R 1702 standards. These fabrics will help the Group better market our lab coats, work wear and disposable personal protective equipment.

Corporate Social Responsibility Statement

Medtecs has long been committed to conducting our business in a responsible and sustainable way. In addition to complying with local labor and environmental protection laws and regulations, we endeavor to create a positive impact wherever we operate through charitable giving, volunteerism and community outreach. In 2019, we worked on a number of initiatives that aligned with our vision and mission, and the goals identified in our Sustainability Report to ultimately create value for society and better people's lives.

In Taiwan

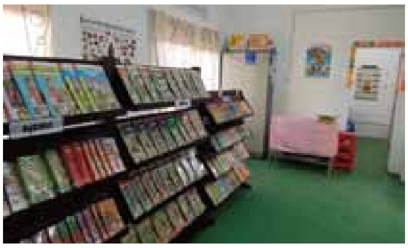
- We held three large-scale workshops for healthcare professionals, procurement personnel and nursing staff stationed at schools (a total of about 455 people) to demonstrate the importance of the proper use and quality management of epidemic prevention gears and materials, empowering health-care facilities to practice more effective infection control while increasing individual awareness of infectious diseases across the board.
- We made cash donations to Taiwanese indigenous laborers who had received housing assistance from Tainan City Government's Labor Affairs Bureau.

In Cambodia

- In collaboration with Sipar, a French NGO that focuses on improving literacy of underprivileged populations in Cambodia, we set up a Library Education Centre at our Kampong Cham factory to enhance educational and social development of our Cambodian employees.
- Following long-standing tradition, we continued to donate to the Cambodian International Red Cross to support its construction of medical facilities and promotion of international humanitarian law.
- We donated much-needed stationery to teachers and students in Cambodian schools on International Children's Day.
- We donated face masks, blankets, food supplies and cash to the Cambodian police force.
- We donated a cement table to a local Cambodian temple.

Donated cement table to a Cambodian temple

Donated stationery to teachers and students in Cambodian schools



Library Education Centre at our Kampong Cham factory for employee cultural enrichment

In the Philippines

- We're keen to support employees who volunteer or fundraise for a good cause. We sponsored our teams in the Million Volunteer Run organized by the Philippine Red Cross to raise funds to acquire such life-saving equipment as ambulances, fire trucks and rescue vehicles.
- We donated 500,000 pieces of face masks to help locals who were affected by the ash falls following the eruptions of Taal Volcano.

Sponsored staff for the Million Volunteer Run organized by the Philippine Red Cross

Donation of facemasks to victims of Taal eruption

Corporate Directory

Board of Directors

- Clement Yang Ker-Cheng
  Chairman
- Xia Junwei
  Deputy Executive Chairman
- William Yang Weiyuan
  Executive Director / Chief Executive Officer
- Wilfrido Candelaria Rodriguez
  Executive Director / Chief Financial Officer
- Lim Tai Toon
  Lead Independent Director
- Carol Yang Xiao-Qing
  Independent Director
- Nieh Chien-Chung
  Independent Director

Audit Committee

- Lim Tai Toon
  Chairman
- Carol Yang Xiao-Qing
  Member
- Nieh Chien-Chung
  Member

Remuneration Committee

- Nieh Chien-Chung
  Chairman
- Carol Yang Xiao-Qing
  Member
- Lim Tai Toon
  Member

Nominating Committee

- Carol Yang Xiao-Qing
  Chairman
- Lim Tai Toon
  Member
- Nieh Chien-Chung
  Member
- Clement Yang Ker-Cheng
  Member
- Xia Junwei
  Member
- William Yang Weiyuan
  Member

Company Secretaries

- Abdul Jabbar Bin Karam Din
  (Company Secretary)
- Codan Services Limited
  (Assistant Company Secretary)

Share Transfer Agent

- Boardroom Corporate & Advisory Services Pte. Ltd.
  50 Raffles Place #32-01
  Singapore Land Tower
  Singapore 048623

Sponsor

- R & T Corporate Services Pte. Ltd.
  9 Straits View #06-07 Marina One
  West Tower
  Singapore 018937
- Registered Professionals
  Evelyn Wee Kim Lin
  Howard Cheam Heng Haw

Registered office in Bermuda

- Medtecs International Corp. Ltd.
  TEL: +632-817-9000
  Clarendon House 2 Church Street
  Hamilton
  HM11 Bermuda

Auditors

- SyCip Gorres Velayo & Co.
  (A Member Firm of
  Ernst & Young Global Limited)
  6760 Ayala Avenue
  1226 Makati City
  Philippines

  Partner in Charge:
  Jose Pepito E. Zabat III
  (From 18 November 2016)

Principal Bankers

- Taiwan Cooperative Bank
  26th Floor Citibank Tower
  8741 Paseo De Roxas
  Makati City, Philippines
- Bank of SinoPac
  No. 260, Sec. 2 Beixin Rd., Xiandian Dist.,
  New Taipe City 231, Taiwan
- Bank of Taiwan
  2F-2, No. 66, Sachong Rd.m Nangang Dist.,
  Taipei Taiwan
- Bangkok Bank, Manila Branch
  10th Floor, Tower 2, The Enterprise Center,
  6766, Ayala Avenue, Makati,
  1200 Metro Manila Philippines
- China Banking Corporation
  CBC Building 8745 Paseo de Roxas
  Makati City, Philippines

Profile of the Board of Directors

Mr Clement Yang Ker-Cheng | Executive Chairman

(Appointed as Director in 1997, and re-elected in 2019)

Mr Clement Yang Ker-Cheng is the Chairman of the Company. He oversees the overall management, strategic planning, product development and marketing of the Group. He was the Chief Executive Officer of the Group's operations since 1990 until 2 May 2018 when Mr. William Yang Weiyuan took over as the Company's Chief Executive Officer. Mr. Yang is a member of the Nominating Committee. Under his leadership, the Medtecs Group has grown into an integrated healthcare services provider and original product manufacturer of a wide range of medical consumables for large multinational healthcare distributors, pharmaceutical companies and hospital groups around the globe.

Prior to founding the Medtecs Group, Mr Yang served as senior vice president of the Fu-I Industrial Group of companies, and the chief executive officer of Shentex Corporation. From 1986 to 1989, he was director of Taiwan Cotton Weavers Association. Mr Yang was president of the Taiwanese Business Association of Subic Bay and now serves as Chairman of the Cambodia and Philippines committees of the Chinese-Philippine Business Council.

Mr Yang has more than thirty years of experience in the textile manufacturing industry, with majority of those years devoted to the development of medical consumables for the healthcare industry.

Mr Xia Junwei | Deputy Executive Chairman

(Appointed as Director in 2015 and re-elected in 2019)

Mr Xia Junwei was appointed as a Non-Executive and Non-Independent Director of the Company on 15 October 2015 and Deputy Non-Executive Chairman of the Board on 20 November 2015. Mr. Xia was re-designated as an Executive Director of the Company on 5 July 2016. He is a member of the Nominating Committee.

Mr Xia has more than two decades' experience in doing business in mainland China and has amassed considerable connections which he hopes to contribute to the Company's business expansion in the mainland.

Mr. Xia is the CEO of the Lingholm Group of companies in Singapore, which comprises Lingholm Holdings Pte. Ltd. (parent company focused on investment) and Lingholm Pte Ltd (subsidiary focused on commodities trading). Previously, he served as General Manager (2005-2010) and Chairman (2001-2011) of Tianjin YiSheng Petroleum Engineering Ltd.

Mr Xia graduated from China Dongying Petroleum Institute; he has completed his EMBA studies at Nanyang Technological University and was conferred Executive Master of Business Administration.

Mr William Yang Weiyuan | Executive Director / Chief Executive Officer

(Appointed as Director in 1997 and re-elected in 2019)

Mr. William Yang Weiyuan was appointed as an Executive Director on 2 September 2013.

Mr. William Yang graduated from New York Institute of Technology with a degree in Electrical and Computer Engineering in 2005. He was the General Manager of the Company's wholly-owned subsidiary, Shanghai Greenway Medical Apparatus Co., Ltd. since 1 March 2007, and General Manager of the Company's subsidiary, Medtecs (Taiwan) Corporation since 1 July 2010. As General Manager of the two subsidiaries, he takes an active role in the marketing, production, human resources and finance departments.

Mr. William Yang was appointed as the Company's Chief Executive Officer, in place of Mr. Clement Yang, on 2 May 2018.

Mr. William Yang has over 10 years of experience in the textile industry, with majority of those years devoted to developments of medical consumables and Hospital Service for the health care industry.

Mr Wilfrido Candelaria Rodriguez | Executive Director / Chief Financial Officer

(Appointed as Director in 1997 and re-elected in 2019)

Mr Wilfrido Candelaria Rodriguez was appointed an Executive Director on 26 November 1997 and was appointed Chief Financial Officer ("CFO") on 10 December 2008.

Prior to his appointment as CFO of the Company, Mr Rodriguez has served as Vice President for internal audit of the Company since October 1999 and was a controller of Clement Textile & International Corporation in August 1996. Before joining the Company, he was the chief financial officer of Ester Corp. from 1994 to 1996. From 1993 to 1994, he was a consultant in private practice. He was employed as the president of Philippines Hospitals and Health Services, Inc. from 1989 to 1992.

He graduated with a Bachelor of Science in Business Administration from the University of the East, Philippines and qualified as a Certified Public Accountant in the Philippines.

Mr Lim Tai Toon | Lead Independent Director

(Appointed as Director in 2010 and re-elected in 2017)

Mr Lim Tai Toon was appointed as an Independent Director of the Company on 29 October 2010 and Chairman of the Audit Committee and Lead Independent Director on 4 May 2012. He is a member of the Nominating and Remuneration Committees.

Mr Lim Tai Toon spent the earlier part of his career with the Singapore Armed Forces before embarking on a broad and varied financial and business career.

Since 1994, Mr Lim has worked in a few SGX listed companies, most recently as financial advisor of REA Ltd (formerly known as Superior Fastening Ltd) and previously as executive director of Eastgate Technology Limited (2006 to 2009), managing director of Vashion Group Limited (formerly known as Startech Electronics Limited) from 2003 to 2006 and vice president (corporate affairs) of Ipco International Limited (1995 to 1996).

Between those years, Mr Lim also founded a software development company in 2003 and was based in China as Country chief executive officer for an Asian company from 1996 to 2000.

Mr Lim holds a Master of Business (Information Technology) from Curtin University of Technology (Australia), Master of Business Administration from Henly Management College (United Kingdom) and Bachelor of Accountancy from National University of Singapore (Singapore).

Ms Carol Yang Xiao-Qing | Independent Director

(Appointed as Director in 2005 and re-elected in 2017)

Ms Carol Yang Xiao-Qing was appointed as an Independent Director of the Company on 1 May 2005 and Chairman of the Nominating Committee on 14 August 2012. She is a member of the Audit and Remuneration Committees.

Ms Yang is the Chief Executive Officer of Galaxaco China Group LLC, a project development and consulting firm with offices in Beijing and San Francisco. Ms Yang has extensive experience in inbound investments, international trade and state regulatory matters in China. She held directorships in Schauenburg Truplast Hose Technology Ltd, Guangzhou GISE Gas Ltd., Asian Light Group Limited and Shanghai AKA Mechanical and Electric Co., Ltd. for the last five years.

Ms Yang holds a Bachelor of Arts in Journalism from Jinan University, People's Republic of China. She also attended Stanford University on a Communications Fellowship in 1985. Subsequently, Ms. Yang received her Master of Arts in Communications Management & Investor Relations from Simmons College in Massachusetts.

Dr. Nieh Chien-Chung | Independent Director

(Appointed as Director in 8 August 2019 and subject to re-election in 2020)

Dr. Nieh Chien-Ching was appointed as an Independent Director of the Company on 8 August 2019 and Chairman of the Remuneration Committee on 8 August 2019. He is a member of the Audit and Nominating Committees.

Dr. Nieh is currently a professor of Tamkang University and National Taipei University. He was also formerly a professor in National Cheng-Chi University. Dr Nieh holds an MBA in Finance in Baruch College, New York, USA. He also holds an MSc in Industrial Engineering, an MA in Economics and a PhD in Economics in Rutgers University, New Jersey, USA.

Financial Calendar

FY 31 December 2019

Announcement of Full Year Results

27 February 2020

Annual General Meeting

By 29 June 2020 (or such other date as the Company may announce from time to time)

FY 31 December 2020

Announcement of Half Year Results

Middle of August 2020

Announcement of Full Year Results

Last week of February 2021

Report on Corporate Governance

Medtecs International Corporation Limited (the "**Company**") is committed to achieving and maintaining a high standard of corporate governance within the Company and its subsidiaries (the "**Group**") by embracing the tenets of good governance, including accountability, transparency and sustainability, which will engender investor confidence and achieve long-term sustainable business performance. Good corporate governance establishes and maintains an appropriate culture, values and ethical standards of conduct at all levels of the Company, which helps to enhance long-term shareholder value whilst taking into account the interests of other stakeholders.

The Company will also be publishing the Company's Sustainability Report later this year which will be in line with the requirements on sustainability reporting introduced by the Singapore Exchange Securities Trading Limited ("**SGX-ST**").

This report describes the corporate governance framework and practices of the Company that were in place during the financial year ended 31 December 2019 ("**FY2019**") with specific reference made to the principles and provisions of the revised Code of Corporate Governance (the "**2018 Code**") issued in August 2018, which forms part of the continuing obligations of the Company under the listing rules of the SGX-ST.

This Report should be read as a whole, instead of being read separately under the different principles of the 2018 Code.

The Company has complied in all material aspects with the principles and provisions of the 2018 Code. When there are variations from the provisions under the 2018 Code, we have provided our explanations in relation to the Company's practices as to how our practices are consistent with the aim and philosophy of the principles in question, when appropriate.

(A) BOARD MATTERS

Board's Conduct of its Affairs

Principle 1: The company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the company.

◎ Role of the Board of Directors (the "Board")

The Board has the dual role of setting strategic direction, and of setting the company's approach to governance. This includes establishing an appropriate culture, values and ethical standards of conduct at all levels of the Company. The role of the Board is broader than that of providing oversight as a well-constituted Board would foster more complete discussions, leading to better decisions and enhanced business performance. The Board also sets the tone for the Group in respect of ethics, values and desired organisation culture, and ensure proper accountability within the Group. The Board is responsible for the overall corporate governance of the Company.

The Board assumes responsibility for stewardship of the Group and is primarily responsible for the protection and enhancement of long-term value and returns for the shareholders. Through the Board's supervision of the management of the business and affairs of the Group, the Board is able to set the appropriate and desired organizational culture and ensures proper accountability within the Company. The Board is also responsible for providing corporate direction, monitors managerial performance and reviews financial results of the Group. In addition, the Board is directly responsible for decision making in respect of the following matters:

a. approve the business strategies including significant acquisition and disposal of subsidiaries or assets and liabilities;

b. approve the annual budgets, major funding proposals, significant capital expenditures and investment and divestment proposals;

c. approve the release of the Group's half year and full year financial results and interested person transactions;

d. oversee the processes for risk management, financial reporting and compliance, and evaluate the adequacy and effectiveness of internal controls, as may be recommended by the Audit Committee ("**AC**");

e. review the performance of management, approve the nomination to the Board of Directors and appointment of key management personnel ("**KMP**"), as may be recommended by the Nominating Committee ("**NC**");

f. review and endorse the framework of remuneration for the Board and KMP, as may be recommended by the Remuneration Committee ("**RC**");

g. corporate policies in keeping with good corporate governance and business practice; and

h. consider sustainability issues, e.g. environmental, social and governance factors, as part of the strategic formulation.

The Board provides shareholders with a balanced and understandable assessment of the Group's performance, position and prospects on a half yearly basis.

The Directors are fiduciaries who act objectively in the best interests of the company and hold Management accountable for performance. The Directors are of the view that they have objectively discharged their duties and responsibilities at all times as fiduciaries in the interest of the Company for FY2019. Directors are entitled to request from Management and should be provided with additional information as needed to make informed decisions. The Directors further understand that they must avoid situations in which their own personal or business interests directly or indirectly conflict or potentially conflict, with the interest of the Group. Where a Director has a conflict or potential conflict of interest in relation to any matter, he will immediately declare his interest at the meeting of the Directors or send a written notice to the Chairman and/or Company Secretary, setting out the details of his interest and the conflict and recuse himself from any discussions on the matter and abstain from participating in any Board decision.

Other matters which specifically require the full Board's decision are those involving, inter alia:

- conflict of interests for a substantial shareholder or a Director;
- material acquisitions and disposals of assets;
- corporate or financial restructuring and share issuances;
- dividends and other returns to shareholders;
- matters which require the Board's approval as specified under the Company's interested person transactions policy; and
- the appointment and removal of the company secretary.

The Board will oversee the Group's sustainability reporting framework by monitoring the environment, social and governance issues that impact the Group's sustainability of its business.

◎ Board Committees

To assist the Board in the execution of its responsibilities, the Board has established Board committees, namely the audit committee, the nominating committee and the remuneration committee (collectively, the "Board Committees"), each of which functions within clearly defined terms of reference and operating procedures which are reviewed on a regular basis. Each Board Committee is formed by clear written terms of reference, setting out the composition, duties, authority and accountabilities of each committee, which have also have been detailed in this report on pages 29 to 42.

◎ Board Meetings and Attendance

The Board meets on a quarterly basis and whenever necessary for the discharge of their duties. Dates of the Board meetings are normally set by the Directors well in advance. Telephonic attendance and conference audio-visual communication at Board and Board Committee meetings are allowed under the Company's Bye-Laws. Decisions of the Board and Board Committees may also be obtained through circular resolution. The Board with the concurrence of the NC is of the view that the Directors have actively participated in Board and committee meetings, and that each Director has dedicated sufficient time and attention to the affairs of the Group for FY2019, regardless of their other board representations.

The number of meetings held by the Board and Board Committees and attendance thereat during the past financial year are as follows:

DIRECTORS	AGM		SGM		BOARD		AC		RC		NC	
	No. of Meetings	Attended	No. of Meetings	Attended	No. of Meetings	Attended	No. of Meetings	Attended	No. of Meetings	Attended	No. of Meetings	Attended
Clement Yang Ker-Cheng	1	1	1	1	4	4	-	-	4	4	4	4
Xia Junwei	1	-	1	-	4	3	-	-	4	3	4	3
William Yang Weiyuan	1	1	1	1	4	4	-	-	4	4	4	4
Wilfrido Candelaria Rodriguez	1	1	1	1	4	3	-	-	-	-	-	-
Lim Tai Toon	1	1	1	1	4	4	4	4	4	4	4	4
Carol Yang Xiao-Qing	1	-	1	-	4	3	4	3	4	3	4	3
Lam Kwong Fai [(a)]	1	1	1	1	4	2	4	2	4	2	4	2
Lim Yeow Beng [(b)]	1	1	1	1	4	2	4	2	4	2	4	2
Dr Nieh Chien-Chung [(c)]	1	N.A	1	N.A	4	1	4	1	4	1	4	-

(a) Mr Lam Kwong Fa resigned as an independent director, a member of the AC, NC and RC with effect from 30 June 2019.

(b) Mr Lim Yeow Beng resigned as an independent director, the Chairman of RC, a member of the AC and NC with effect from 15 July 2019.

(c) Dr. Nieh Chien-Chung was appointed as an independent director, the Chairman of RC, a member of the AC and NC on 8 August 2019.

◎ Induction and Training of Directors

The Board will constantly examine its size and, with a view to determining the impact of its number upon effectiveness, decide on what it considers an appropriate size for the Board. The composition of the Board will be reviewed on an annual basis by the NC to ensure that the Board has the appropriate mix of expertise and experience.

The NC ensures that new Directors are aware of their duties and obligations, and is tasked with deliberating whether a Director is able to and has been adequately carrying out his/her duties as a Director. At the time of their appointment, Directors are provided with formal letters setting out their duties and obligations. Newly appointed Directors will be interviewed by the Sponsor and be given briefings by the Executive Chairman and/or the Chief Executive Officer ("**CEO**") and/or management of the Company on the business activities of the Group and its strategic directions and corporate governance practices.

The Board recognises that it is important that all Directors remain updated with the business and legal developments so as to be able to serve effectively on, and contribute to, the Board. All Directors have many years of corporate experience and are familiar with their duties and responsibilities as Directors (including their respective roles as executive, non-executive and independent directors). In addition, the Directors understand the Group's business and are provided with opportunities to develop and maintain their skills and knowledge as Directors, including visits to the Group's operational facilities and to meet with management in order to gain a better understanding of the Group's business operations.

The Directors are provided with continuing briefings and updates in areas such as Directors' duties and responsibilities, corporate governance, changes in financial reporting standards and issues which have a direct impact on financial statements, so as to enable them to properly discharge their duties as Board or Board Committee members. The scope of such continuous briefings and updates includes overview of industry trends and developments, governance practices and developing trends, and changes in trends in governance practices and regulatory requirements pertaining to the business.

Dr Nieh Chien-Chung, who was appointed as an Independent Director of the Company on 8 August 2019, has no prior experience as a director of an issuer listed on the SGX-ST. He will be attending the Listed Entity Directors Programme conducted by Singapore Institute of Directors within one year from the date of his appointment to the Board.

◎ Access to Information

To assist the Board in fulfilling its responsibilities, the management provides the Board with a management report containing complete, adequate and timely information prior to the Board meetings. The management welcomes Directors to seek explanations or clarifications from and/or convene informal discussions with the management on any aspect of the Group's operations or business. Necessary arrangements will be made for the informal discussions or explanations as and when required.

All Directors have separate and independent access to the management, the Company Secretary and external advisers (where necessary) at all times, at the Company's expense. The Company Secretary attends all Board meetings and ensures that Board procedures and all other rules and regulations applicable to the Company are complied with. The appointment and removal of the Company Secretary are subject to the Board's approval.

Changes to regulations are closely monitored by management and for changes which have an important bearing on the Company or the Directors' disclosure obligations, the Directors are briefed during Board meetings.

The Directors and the chairmen of the respective committees, whether as a group or individually are able to seek independent professional advice as and when necessary in furtherance of their duties at the Company's expense. The appointment of such professional advisor is subject to approval by the Board.

Board Composition and Balance

Principle 2: The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

The Board consists of seven (7) Directors, of whom three (3) are independent. The list of Directors is as follows:

Executive Directors

Clement Yang Ker-Cheng
(Executive Chairman)

Xia Junwei
(Deputy Executive Chairman)

William Yang Weiyuan
(CEO with effect from 2 May 2018)

Wilfrido Candelaria Rodriguez
(Chief Financial Officer)

Independent Directors

Lim Tai Toon (Lead Independent Director)

Carol Yang Xiao-Qing (Independent Director)

Dr Nieh Chien-Chung (Independent Director with effect from 8 August 2019)

The size and composition of the Board and the Board committees are reviewed from time to time by the NC to ensure that they are of an appropriate size and comprise Directors who as a group provide the appropriate balance and mix of skills, knowledge, experience and other aspects of diversity such as gender and age so as to foster effective discussions and decision making. The NC is of the view that the current Board size of seven (7) Directors, of whom three (3) are Independent Directors, is appropriate and effective for the time being, taking into account the nature and scope of the Company's operations.

The current Board comprises persons with diverse expertise and experience in accounting, business and management, finance and risk management who as a group provide core competencies necessary to meet the Company's requirements. The Directors' objective judgment on corporate affairs and collective experience and knowledge are invaluable to the Group and allows for the useful exchange of ideas and views.

Pursuant to provision 2.4 of the Code, the Board has also adopted the Board Diversity Policy.
Under the Board Diversity Policy, the NC will, in reviewing the Board's composition, rotation and retirement of Directors and succession planning, consider a number of aspects, including but not limited to gender, age, nationalities, ethnicity, cultural background, educational background, experience, skills, knowledge, independence and length of service. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately.

◎ Independence of Directors

The NC reviews the independence of each Director on an annual basis based on the Code's definition of what constitutes an independent director. Each Director is required to declare their relationships with the Company, its related corporations, its substantial shareholders or its officers (if any) which may affect his/her independence through the completion and submission of a 'Confirmation of Independence form. Such relationships include business relationships which the Director, his/her immediate family member, or an organization in which the Director and/or his/her immediate family member is a director, substantial shareholder, partner (with 5% or more stake) or executive officer has with the Company or any of its related corporations and the director's direct association with a substantial shareholder of the company, in the current and immediate past financial year. The said form, which is drawn up based on the definitions and guidelines set forth in Principle 2 of the Code and the Guidebook for Audit Committees in Singapore (Second Edition) issued by the Monetary Authority of Singapore, the Accounting and Corporate Regulatory Authority and the Singapore Exchange in August 2014 ("**Guidebook**"), requires each Director to assess whether he/she considers himself/herself independent despite not having any relationships identified in the Code.

The NC is of the view that the three (3) Independent Directors (who represent less than half of the Board) are independent under Rule 406(3)(d) of the Listing Manual Section B: Rules of Catalist of the SGX-ST (the "**Rules of Catalist**"), which came into effect on 1 January 2019, and there is a strong and independent element on the Board which is able to exercise objective judgment on corporate matters independently, in particular, from management, and that no individual or small group of individuals dominate the Board's decision-making process.

The 2018 Code requires the independence of any Director who has served on the Board for more than nine years to be rigorously reviewed. Effective from 1 January 2022, a director will not be independent if he has been a director for an aggregate period of more than 9 years (whether before or after listing) and whose continued appointment as an independent director has not been sought and approved in separate resolutions by (a) all shareholders; and (b) all shareholders, excluding share-holders who also serve as the directors or the chief executive officer of the company, and associates of such directors and chief executive officers. In respect of Ms. Carol Yang Xiao-Qing and Mr Lim Tai Toon, who have served on the Board for more than nine years from the date of their first appointment on 1 May 2005 and 29 October 2010 respectively, the NC has reviewed based on, amongst others, their attendance and contributions at meetings of the Board and Board Committees and confirmed that Ms. Carol Yang Xiao-Qing and Mr Lim Tai Toon are independent. Taking into account the views of the NC, the Board concurs that Ms Carol Yang Xiao-Qing and Mr Lim Tai Toon continue to demonstrate strong independence in character and judgment in the discharge of their responsibilities as the Directors of the Company. Ms Carol Yang Xiao-Qing and Mr Lim Tai Toon have continued to express their individual viewpoints, debated issues and objectively scrutinised and challenged the management. Ms Carol Yang Xiao-Qing and Mr Lim Tai Toon have sought clarification and amplification as they deemed required, including through direct access to the Group's employees. The Board as a whole has also considered and determined that Ms. Carol Yang Xiao-Qing and Mr Lim Tai Toon have, over time, developed significant insights into the Group's business and operations and provided valuable contributions to the Board through their integrity, objectivity and professionalism notwithstanding their years of service. Further, having gained in-depth understanding of the business and operating environment of the Group, Ms Carol Yang Xiao-Qing and Mr Lim Tai Toon provide the Company with much needed experience and knowledge of the industry. Based on the declaration of independence from Ms Carol Yang Xiao-Qing and Mr Lim Tai Toon, they have no association with the management that could compromise their independence. The NC and the Board have concluded that Ms. Carol Yang Xiao-Qing and Mr Lim Tai Toon continue to be considered as an Independent Director. Ms. Carol Yang Xiao-Qing and Mr Lim Tai Toon have abstained from participating in the deliberation and decision on their independence.

The Board, after taking into account the NC's views, is satisfied that Ms Carol Yang Xiao-Qing, Mr Lim Tai Toon and Dr Nieh Chien-Chung remain as Independent Directors as there are no relationships or circumstances which could interfere, or could reasonably be perceived to interfere with the exercise of independent business judgement of each Independent Director.

Mr Lim Tai Toon is resident in Singapore. Hence, the Company is in compliance with the Rules of Catalist which requires that there should at least be one (1) independent director who is residing in Singapore.

The Non-Executive Directors ("**NEDs**") and/or the independent directors ("**IDs**") participate actively in Board and Board Committees meetings. With their professional expertise, experience and knowledge, they provide constructive advice and guidance for effective discharge by the Board of its principal functions over the Group's strategies, businesses and other affairs. The NEDs and/or IDs also constructively challenge and aid the development of directions on strategy as well as review the performance of the management in achieving agreed goals and objectives. In addition, they also monitor the reporting of the Group's performance. To facilitate a more effective check on the management, the NEDs and/or IDs meet and discuss on the Group's affairs without the presence of the management where necessary, and the chairman of such meetings provides feedback to the Board and/or Chairman as appropriate.

Based on the foregoing discussions on the Board composition, the Company was not able to comply with provisions 2.2 and 2.3 of the 2018 Code, where (i) the IDs must make up majority of the Board where the Chairman is not independent and (ii) the NEDs must make up majority of the Board, respectively. Non-compliance with the said provisions was due to the retirement of two (2) IDs in 2019 and induction of only one (1) new ID in place. As a result of the Board shifts in 2019, the Board will continue to actively seek and identify suitable candidates with the necessary skillsets and knowledge to contribute to the Board as well as to meet the aforementioned provisions. Taking into consideration the Board's proactiveness in regularly engaging and seeking the feedback of the current NEDs and/or IDs in decision-making for the Group's business and affairs and the current NEDs and/or IDs' contributions demonstrating their ability to exercise due diligence and independent judgment and make decisions objectively in the best interests of the Company, the Board is of the view that notwithstanding its present composition (as to number of IDs), the Board retains an appropriate level of independence and diversity of thought and background in its composition to enable it to exercise objective and independent judgment in making decisions in the best interests of the Company.

Chairman and CEO

Principle 3: There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.

The Group's Chairman is Mr Clement Yang Ker-Cheng, who was also the CEO of the Company until 2 May 2018, and who plays an instrumental role in developing the business of the Group and has also provided the Group with strong leadership vision.

As part of the Group's management succession plan, Mr William Yang Weiyuan, son to the Chairman, Mr. Clement Yang Ker-Cheng, was appointed as the CEO of the Company with effect from 2 May 2018. Mr. William Yang Weiyuan is mainly responsible for the day-to-day operations of the Group.

Mr. Xia Junwei is the Deputy Executive Chairman who is responsible for the Group's development plans into the China market.

Given the centrality of the Board to good corporate governance, it is fundamental that the Chairman sets the right tone. The Chairman, in consultation with Management, sets the agenda for Board meetings and ensures that meetings are held when necessary, and during such meetings encourages a full and frank exchange of views from all Directors so that debates benefit from the full diversity of views.

The CEO is responsible for the management of the overall business and development of the Group. The CEO together with senior Management execute plans which are in line with the strategic decisions and goals set out by the Board, and ensures that the remaining Directors are kept updated and informed of the Group's business operations and financial position.

Both the Chairman and the CEO exercise control over the quality, quantity and timelines of information flow between the Board and the management. They ensure that Board meetings are held when necessary and set the Board meeting agenda in consultation with the Directors. The Chairman and the CEO review the Board papers before they are presented to the Board, and they ensure that Board members are provided with complete, adequate and timely information. Management staff who prepared the papers, or who can provide additional insight into the matters to be discussed, are invited to present the papers or participate in the Board meeting at the relevant time. The Chairman and the CEO are responsible for ensuring effective communication with shareholders and the Company's compliance with the Code.

To ensure an appropriate balance of power and authority, increased accountability and greater capacity of the Board for independent decision making, Mr Lim Tai Toon was appointed as Lead Independent Director of the Company with effect from 4 May 2012. Shareholders with concerns may contact him directly, when contact through the normal channels via the Chairman, the CEO or the Chief Financial Officer ("CFO") has failed to provide satisfactory resolution, or when such contact is inappropriate. All the Independent Directors, including the Lead Independent Director, meet annually without the presence of other Executive and Non-Independent Directors to discuss matters of significance which are then reported to the Chairman and the CEO accordingly.

All the Board committees are chaired by the Independent Directors. The Board is of the view that there are sufficient safeguards and checks to ensure that the process of decision making by the Board is independent and based on collective decisions without any individual or group of individuals exercising any considerable concentration of power or influence.

Board Membership

Principle 4: The Board has a formal and transparent process for the appointment and reappointment of directors, taking into account the need for progressive renewal of the Board.

The NC comprises the following six (6) members:

Carol Yang Xiao-Qing (Chairman)
Lim Tai Toon
Dr Nieh Chien-Chung
Clement Yang Ker-Cheng
Xia Junwei
William Yang Weiyuan

The existing NC comprises three (3) Executive Directors and three (3) Non-Executive Independent Directors. The Board recognises that the composition of the NC is not in accordance with the requirement of provision 4.2 in the 2018 Code. The Board is of the view that the membership of Mr Clement Yang, Mr William Yang and Mr Xia Junwei are necessary to facilitate a more effective discussion on the criteria for Board's candidacy. In addition, the NC is cognizant of and ensures that (i) each member of the NC abstains from voting on any resolutions if there is any conflict of interest and/or prior relationship (ii) rigorous interviews are conducted with incoming/ re-appointed Directors to ensure they are aware of their obligations as a Director and/or and (iii) it progressively reviews the criteria for candidacy. In view of the above, the Board is of the view that there is a sufficiently formal and transparent process for the appointment and re-appointment of the Directors.

The NC, which has written terms of reference, is responsible for making recommendations to the Board on all Board appointments and re-appointments. The key terms of reference of the NC are as follows:

- to identify candidates and review all nominations for the appointment or re-appointment of members of the Board, the managing director of the Group, and to determine the selection criteria;
- to ensure that all Board appointees undergo an appropriate induction programme;

- to regularly review the Board structure, size and composition and make recommendations to the Board with regard to any adjustments that are deemed necessary;
- to identify gaps in the mix of skills, experience and other qualities required in an effective Board and to nominate or recommend suitable candidates to fill these gaps;
- to decide whether a Director is able to and has been adequately carrying out his duties as a Director of the Company, particularly where the Director has multiple board representations;
- to review the independence of each Director annually, having regard to the circumstances set forth in the 2018 Code;
- to decide how the Board's performance may be evaluated and propose objective performance criteria for the Board's approval; and
- to evaluate the effectiveness of the Board as a whole and assess the contribution by each individual Director, to the effectiveness of the Board.

For the financial year under review, the NC held four (4) meetings.

When deciding on the appointment of new Directors to the Board, the NC and the Board consider a variety of factors, including the core competencies, skills and experience that are required on the Board and Board Committees, diversity, independence, conflicts of interest and time commitments.

The NC is responsible for re-appointment of Directors. In its deliberations on the re-appointment of existing Directors, the NC takes into consideration the Directors' contribution and performance. The assessment parameters include attendance as well as the quality of intervention and special contribution.

Pursuant to Bye-Law 86 of the Company's Bye-Laws, one-third (1/3) of the Directors shall retire from office by rotation at each annual general meeting ("AGM") provided that the Chairman and the CEO shall not, while holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire each year. Notwithstanding this, Rule 720(4) of the Rules of Catalist which came into effect on 1 January 2019 requires that all directors must submit themselves for re-nomination and re-appointment at least once every three years. In addition, Bye-Law 85 of the Company's Bye-Laws provides that a newly appointed Director shall hold office until the next following AGM and shall be eligible for re-election at that AGM.

In this respect, the NC has recommended that the following Directors, pursuant to the Company's Constitution, who are retiring and/or up for re-election at the forthcoming AGM, be re-elected as Directors:

- Lim Tai Toon
- Carol Yang Xiao-Qing
- Dr Nieh Chien-Chung

Each member of the NC abstains from making any recommendations and/or participating in any deliberation of the NC and from voting on any resolution, in respect of the assessment of his own performance or re-nomination as a Director.

The NC is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Company and Group, notwithstanding that some of the Directors have multiple board representations. The NC is of the view that it would not be necessary to put a maximum limit on the number of listed company board representations and other principal commitments of each Director. In its search and nomination process for new Directors, the NC has, at its disposal, search companies, personal contacts and recommendations, to cast its net as wide as possible for the right candidates.

Key information on the Directors is set out below:

Name of Directors	Position	Date of first appointment as a Director	Date of last re-appointment as a Director	Present Directorships or chairmanships in other listed companies	Directorships or chairmanships held over the preceding three years in other listed companies	Other principal commitments	Due for re-appointment at the AGM
Clement Yang Ker-Cheng	Chairman	19 November 1997	26 April 2019	None	None	None	N.A.
Xia Junwei	Deputy Executive Chairman	15 October 2015	29 April 2018	None	None	None	N.A.
William Yang Weiyuan	Executive Director andChief Executive Officer	2 September 2013	26 April 2019	None	None	None	N.A.
Wilfrido Candelaria Rodriguez	Executive Director and Chief Financial Officer	26 November 1997	26 April 2019	None	None	None	N.A.
Carol Yang Xiao-Qing	Independent Director	1 May 2005	15 May 2017	None	None	None	Retirement by rotation (Bye-Law 86)
Lim Tai Toon	Lead Independent Director	29 October 2010	15 May 2017	Yes	None	None	Retirement by rotation (Bye-Law 86)
Dr Nieh Chien-Chung	Independent Director	8 August 2019	N.A.	None	None	None	Retirement by rotation (Bye-Law 85)

Note:
The details of Directors' credentials including working experience, academic and professional qualifications, shareholding in the Company and its related corporations and directorships can be found in the Board of Directors and Directors' report sections of the annual report.

The information required under Rule 720(5) of the Rules of Catalist is set out below:

Name of person	Carol Yang Xiao-Qing	Lim Tai Toon	Dr Nieh Chien-Chung
Date Of Appointment	1 May 2005	29 October 2010	8 August 2019
Date of last re-appointment (if applicable)	15 May 2017	15 May 2017	N.A.
Age	65 years old	59 years old	60 years old
Country Of Principal Residence	China	Singapore	Taiwan
The Board's comments on this appointment (including rationale, selection criteria , and the search and nomination process)	After assessing Ms Carol Yang's contribution and performance, the NC has recommended that Ms Carol Yang be re-elected as Director of the Company.	After assessing Mr Lim Tai Toon's contribution and performance, the NC has recommended that Mr Lim be re-elected as Director of the Company.	After assessing Dr Nieh Chien-Chung's contribution and performance, the NC has recommended that Dr Nieh be re-elected as Director of the Company.
Whether appointment is executive, and if so, the area of responsibility	Non-Executive.	Non-Executive.	Non-Executive.
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	Chairman of NC, A Member of AC and RC.	Chairman of AC, A Member of NC and RC.	Chairman of NC, A Member of AC and RC.
Professional Qualifications	Bachelor of Arts in Journalism from Jinan University, People's Republic of China. Master of Arts in Communications Management & Investor Relations from Simmons College in Massachusetts.	Master of Business (Information Technology) from Curtin University of Technology (Australia). Master of Business Administration from Henly Management College (United Kingdom). Bachelor of Accountancy from National University of Singapore (Singapore).	Rutgers University, The State University of New Jersey, USA: 1. PhD in Economics (1996) 2. MA in Econimics (1993) 3. MSc in Industrial Engineering (1989) Baruch College, The City University of New York, USA: 1.MBA in Finance (1992)

Name of person	Carol Yang Xiao-Qing	Lim Tai Toon	Dr Nieh Chien-Chung
Working experience and occupation(s) during the past 10 years	Galaxaco China Group LLC, Chief Executive Officer	REA Ltd , Financial Advisor	Tamkang University, Professor (August 1996 to Present) National Taipei University, Adjunct Professor (August 2005 to Present) National Cheng-Chi University, Adjunct Professor (August 2005 to July 2010)
Shareholding interest in the listed issuer and its subsidiaries	Nil	Nil	Nil
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial sha reholder of the listed issuer or of any of its principal subsidiaries	Nil	Nil	Nil
Conflict of interest (including any competing business)	Nil	Nil	Nil
Undertaking (in the format set out in Appendix 7H) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes	Yes
Other Principal Commitments* including Directorships # * "Principal Commitments" has the same meaning as defined in the Code. # These fields are not applicable for announcements of appointments pursuant to Listing Rule 704 (8) (for the past 5 years)	Nil	Nil	Nil
Disclose the following matters concerning an appointment of director, chief executive officer, chief financial officer, general manager or other officer of equivalent rank. **If the answer to any question is "yes", full details must be given.**			
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No	No
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No	No

Name of person	Carol Yang Xiao-Qing	Lim Tai Toon	Dr Nieh Chien-Chung
(c) Whether there is any unsatisfied judgment against him?	No	No	No
(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No	No
(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No	No
(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been t he subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No	No
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No	No
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No	No
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No	No

Name of person	Carol Yang Xiao-Qing	Lim Tai Toon	Dr Nieh Chien-Chung
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of: (i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No	No
(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	No	No
(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No	No	No
(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No	No	No
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or an y other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No	No
Disclosure applicable to the appointment of Director only.			
Any prior experience as a director of an issuer listed on the Exchange?	This relates to re -appointment of Director.	This relates to re -appointment of Director.	No
If Yes, please provide details of prior experience .	N.A.	N.A.	Nil.
If No, Please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange. Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable).	N.A.	N.A.	No, Pursuant to Dr Nieh's appointment announcement on 8 August 2019, the Company will arrange for Dr Nieh attending the relevant director courses as prescribed by Exchange.

Board Performance

Principle 5: The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.

The NC annually reviews the criteria for evaluating the Board's performance and recommends to the Board a set of objective performance criteria and process for the evaluation of the effectiveness of the Board as a whole, each Board committee separately as well as the contribution by the Chairman and each individual Director to the Board with a view to enhancing effectiveness to promote long-term shareholders' value. Based on the recommendations of the NC, the Board has established processes for evaluating the effectiveness of the Board as a whole and of each Board committee separately.

The performance criteria for the evaluation includes an evaluation of the size and composition of the Board and the respective Board committees, the Board/committee/Directors' access to information, accountability, Board/committee processes, Board/committee performance in relation to discharging its principal responsibilities, communication with management and standards of conduct of the Directors thereto. The Chairman and the CEO would then act on the results of the performance evaluation, and where appropriate, propose new members to be appointed to the Board or seek the resignation of Directors, in consultation with the NC.

In the course of the year, the NC has assessed the performance of individual Directors by preparing a questionnaire to be completed by each Director, which were then collated and the findings were analyzed and discussed with a view to implementing certain recommendations to further enhance the effectiveness of the Board.

The Board, with the concurrence of the NC, is of the view that the performance of the Board as a whole is satisfactory, the Board Committees operate effectively and each Director is contributing to the overall effectiveness of the Board. No external facilitator was used in the evaluation process for the financial year under review.

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 6: The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration.

The RC reviews and makes recommendations to the Board on a framework of remuneration as well as specific remuneration packages for each Director and KMP to and considers all aspects of remuneration including but not limited to Directors' fees, salaries, allowances, bonuses, options, benefits-in-kind and termination terms, to ensure they are fair.

The RC comprises the following three (3) members, all of whom, including the RC Chairman are Independent Directors:

Dr Nieh Chien-Chung (Chairman) (Appointed on 8 August 2019)

Lim Tai Toon

Carol Yang Xiao-Qing

The members of the RC have many years of corporate experience. In addition, the RC has access to expert professional advice on remuneration matters as and when necessary.

The members of the RC carry out their duties in accordance with the terms of reference which include, amongst others, the following:

- to review Directors' fees to ensure that they are at sufficiently competitive levels;
- to review and administer Medtecs Share Option Scheme ("ESOS") for Directors of the Company and employees of the Group, details of which can be found in the Directors' report in the annual report;
- to review and advise the Board on the terms of appointment and remuneration of its members, CEO, KMP of the Group and all managerial staff who are related to any of the Directors or the CEO;
- to review the terms of the employment arrangements with management so as to develop consistent group wide employment practices subject to regional differences;
- to review the Group's obligations arising in the event of termination of the Executive Directors' and KMP's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.
- to recommend to the Board in consultation with senior management and the Chairman of the Board, any long term incentive scheme; and
- to review and approve any proposals or recommendations relating to KMPs' remuneration.

For the financial year under review, the RC held four (4) meetings.

There being no specific necessity, the RC did not seek the service of an external remuneration consultant in FY 2019.

Level and Mix of Remuneration

Principle 7: The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.

The Company adopts a formal procedure for the fixing of the remuneration packages of individual Directors. No Director is involved in deciding his own remuneration. In setting remuneration packages, the Company takes into account pay and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of individual Directors.

Each of the four (4) Executive Directors has signed a service contract and the compensation framework for the KMP and the Executive Directors comprises monthly salaries, annual bonuses and allowances. The Company has in place an employee share option scheme which aims to provide long-term incentive for Directors and KMP to encourage loyalty and align the interest of the Directors and KMP with those of the shareholders. None of the service contracts has onerous removal clauses. Each of the Chairman's and the CEO's service contracts has a fixed appointment period.

Annual review of the remuneration of Executive Directors and KMP is also carried out by the RC to ensure that the remuneration of the Executive Directors and KMP is appropriate to attract, retain and motivate the directors to provide good stewardship of the Company and KMP to successfully manage the Company for the long term, and that such remuneration are commensurate with their performance and value-add to the Group, giving due regard to the financial and commercial health and business needs of the Group. The performance of the Chairman and the CEO (along with that of other KMP) is reviewed periodically by the RC.

The NEDs have no service contracts with the Company and their terms are specified in the Bye-Laws. NEDs are paid a basic fee for serving as a Director and an additional fee for serving on any of the Board Committees. In determining the quantum of such fees, factors such as frequency of meetings, time spent and responsibilities of Directors are taken into account. Such fees are subject to the approval of the shareholders as a lump sum payment at the AGM. The Board is of the view that the remuneration of the NEDs for FY2019 is appropriate to the level of contribution based on the factors above.

Disclosure on Remuneration

Principle 8: The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

The breakdown of remuneration of the Directors, the top KMPs (who are not also Directors or the CEO) and employees who are immediate family members of a Director/CEO is set out below:

◎ Remuneration of Directors

Names of Directors	Base/fixed salary [1] %	Variable or performance related income/bonus [2] %	Director's fee [3] %	Total %	Remuneration Bands S$'000
Executive Directors					
Clement Yang Ker-Cheng	76%	—	24%	100%	Below S$250,000
Xia Junwei	—	54%	46%	100%	Below S$250,000
William Yang Weiyuan	94%	—	6%	100%	Below S$250,000
Wilfrido Candelaria Rodriguez	91%	—	9%	100%	Below S$250,000
Independent Directors					
Lim Tai Toon	—	—	100%	100%	Below S$250,000
Carol Yang Xiao-Qing	—	—	100%	100%	Below S$250,000
Dr Nieh Chien-Chung	—	—	100%	100%	Below S$250,000

(1) Base salary includes contractual bonus.
(2) Variable payment includes performance bonus and profit sharing.
(3) Approved by shareholders of the Company as a lump sum at the AGM held on 26 April 2019.

◎ Remuneration of Top Key Management Personnel who are not Directors or the CEO

Names of key executives (who are not directors)	Base/fixed salary [1]%	Variable or performance related income/bonus [2]%	Total %	Remuneration Bands S$'000
Kao Vreang	—	—	100%	Below S$250,000
Chen Liang	—	—	100%	Below S$250,000

(1) Base salary includes contractual bonus.
(2) Variable payment includes performance bonus and profit sharing.

The Code requires companies to fully disclose the remuneration of each individual Director and the CEO on a named basis in exact quantum. In the event of non-disclosure, the Company is required to provide reasons for such non-disclosure and how the Company's practices confirm to the principle.

After much deliberation, the Board is of the view that full disclosure of the specific remuneration of each individual Director and the CEO is not in the best interests of the Company or its stakeholders. In arriving at this decision, the Board had taken into consideration, inter alia, the commercial sensitivity and confidential nature of remuneration matters, the relative size of the Group, the competitive business environment in which the Group operates in, and the negative impact such disclosure may have on the Group in attracting and retaining talent at the Board level on a long-term basis. The Board is of the view that the remuneration of the Non-Executive Directors and the Executive Director, being the CEO, is in line with industry practice. As an alternative, the Company has disclosed the name and remuneration of each individual Director and the CEO within bands of S$250,000.

The aggregate of total remuneration paid to the top two KMP (who are not Directors or the CEO) for the financial year ended 31 December 2019 was S$84,000.

There was no employee who is a substantial shareholder of the Company or an immediate family member of a Director or the CEO or a substantial shareholder and whose remuneration exceeded S$100,000 during the financial year ended 31 December 2019.

There are no termination, retirement and post-employment benefits that may be granted to Directors and KMP (who are not Directors or the CEO) that may be granted over and above what has been disclosed.

◎ Approval of Shareholders

Shareholders' approval was previously obtained for the ESOS. Directors' fees were also approved by shareholders at the AGM. The remuneration framework for Executive Directors and KMP has been approved by the RC and endorsed by the Board. The Board considers that the remuneration framework need not be approved by the shareholders Details of the ESOS are set out under the Directors' report.

(C) ACCOUNTABILITY AND AUDIT

Risk Management and Internal Controls

Principle 9: The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders.

The Board, with the assistance from the AC, is responsible for the overall governance of risk by ensuring that the management maintains sound systems of risk management and internal controls to safeguard shareholders' interest and the Group's assets, and for determining the nature and extent of the significant risks which the Company is willing to take in achieving strategic objectives and value creation.

The AC is responsible for making the necessary recommendations to the Board such that an opinion regarding the adequacy and effectiveness of the risk management and internal control systems of the Group can be made by the Board in the annual report of the Company according to requirements in the Rules of Catalist and the Code.

On an annual basis, the Group's internal audit function prepares an audit plan taking into consideration risks identified and assessed from the risk management system. This risk-based audit plan is approved by the AC and audits are conducted to assess the adequacy and effectiveness of the Group's internal control systems in addressing financial, operational, compliance and information technology controls, and risk management system. In addition, material control weaknesses over financial reporting, if any, are highlighted by the external auditors in the course of the statutory audit.

All audit findings and recommendations made by the internal and external auditors are reported to the AC and significant findings are discussed at the AC meetings. The Group's internal audit function follows up on all recommendations to ensure timely remediation of audit issues and reports the status to the AC every quarter.

◎ Assurance from the CEO and the CFO

The Board has received written assurance from the CEO, CFO and key personnel who are responsible regarding the adequacy and effectiveness of the Company's risk management and internal control systems that:

a. the financial records of the Group have been properly maintained and the financial statements for the financial year ended 31 December 2019 give a true and fair view of the Group's operations and finances; and
b. the risk management and internal control systems in place within the Group are adequate and effective in addressing the material risks in the Group in its current business environment including material financial, operational, compliance and information technology risks.

Based on the reviews conducted by the management and both the internal and external auditors throughout the financial year, as well as the assurance from the CEO and the CFO, the Board with the concurrence of the AC, is of opinion that the Group's internal controls in addressing financial, operational, compliance and information technology risks as well as the Group's risk management system which the Group considers relevant and material to its operations were adequate and effective as at 31 December 2019.

The Board notes that the systems of internal controls and risk management provide reasonable, but not absolute, assurance that the Group will not be adversely affected by any event that can be reasonably foreseen. Furthermore, the Board also acknowledges that no systems of internal controls and risks management can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgment in decision-making, human errors, losses, fraud or other irregularities.

Financial risks relating to the Group are set out in Note 32 to the Financial Statements of this annual report.

Audit Committee

Principle 10: The Board has an Audit Committee ("AC") which discharges its duties objectively.

The AC comprises the following three (3) members, all of whom are Independent Directors:

Lim Tai Toon (Chairman)

Carol Yang Xiao-Qing

Dr Nieh Chien-Chung

All members of the AC have many years of experience in senior management positions in both financial and industrial sectors, and at least two members, namely Lim Tai Toon and Carol Yang Xiao-Qing have recent and relevant accounting or related financial management expertise or experience, and none of the members of the AC are former partners or directors of the Company's existing auditing firm or auditing corporation. The Board is of the view that the AC members, having recent and relevant accounting and related financial management expertise or experience, are appropriately qualified to discharge their responsibilities.

The primary reporting line of the internal audit function is to the AC, which also oversees the quality and integrity of the accounting, auditing, internal controls and financial practices of the Group as well as determines the appointment, termination and remuneration of the head of the internal audit function. The internal audit function has full access to the Company's documents, records, properties and personnel, including the AC.

The Audit Committee performs the following delegated functions in accordance with its terms of reference:

- reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the company and any announcements relating to the company's financial performance;
- reviews the half-yearly and annual financial statements and the auditors' report on the annual financial statements of the Group before they are presented to the Board, focusing on:
  - significant changes in accounting policies and issues which have a direct impact on financial statements and presentation of the financial statements;
  - compliance with accounting standards, legal and the SGX-ST requirements;
  - management judgments and estimates that may have a material impact on the Group; and
  - findings of the external auditors, including significant audit adjustments and any other matters which the external auditors would like to bring to the attention of the AC;
- reviews the audit plans and scope of audit examination of the external auditors;
- evaluates the cost effectiveness, independence and objectivity of external auditors;
- reviews the adequacy of the internal audit function (including the internal accounting controls) and the scope and results of the internal audit procedures;
- ensures the adequacy of the co-operation given by management to the internal and external auditors;
- evaluates the adequacy and effectiveness of the internal control systems including financial, operational, compliance and information technology controls, and risk management of the Group by reviewing written reports from the internal and external auditors, and the management's responses and actions to correct any deficiencies;
- reviewing the assurance from the CEO and the CFO on the financial records and financial statements;
- reviews interested person transactions in accordance with the requirements of the Rules of Catalist;
- meets with the internal and external auditors, other committees, and the management to discuss any matters that these groups believe should be discussed privately with the AC;
- reviews legal and regulatory matters that may have a material impact or a possible impropriety on the financial statements, related compliance policies and programmes and any reports received from regulators;
- reviews the independence, effectiveness and adequacy of the internal audit function;
- reviews the nature and extent of non-audit services provided by external auditors; reports actions and minutes of the AC to the Board of Directors with such recommendations as the AC considers appropriate;

- making recommendations to the Board on: (i) the proposals to the shareholders on the appointment and removal of external auditors; and (ii) the remuneration and terms of engagement of the external auditors;
- reviewing the policy and arrangements for concerns about possible improprieties in financial reporting or other matters to be safely raised, independently investigated and appropriately follows up on. The company publicly discloses, and clearly communicates to employees, the existence of a whistle-blowing policy and procedures for raising such concerns; and
- considers other matters as requested by the Board.

The "whistle-blowing" framework was put in place, where all the employees of the Group may, in confidence raise concerns about possible improprieties in matters of financial reporting or other matters. The AC reviews the "whistle-blowing" framework to ensure that arrangements are in place for independent investigation of such matters and for appropriate follow-up action.

The AC also monitors proposed changes in accounting policies, standards and issues which have a direct impact on financial statements and discusses the accounting implications of major transactions. In addition, the AC advises the Board on the adequacy and effectiveness of the Group's internal controls and risk management systems, and the contents and presentation of its reports. The AC is of the view that the internal audit function is independent, effective and adequately resourced.

The AC is authorised to investigate any matter within its terms of reference, and has full access to the management and also full discretion to invite any Executive Director or KMP to attend its meetings, as well as reasonable resources to enable it to discharge its function properly. The AC has also conducted a review of interested person transactions.

Each member of the AC shall abstain from voting any resolutions in respect of matters he/she is interested in.

The AC reviews the independence of the external auditors. During this process, the AC also reviews all non-audit services provided by the external auditors to satisfy itself that the nature and extent of such non-audit services would not affect their independence. The external auditors did not provide any non-audit services during the financial year ended 31 December 2019. The AC has recommended to the Board that the external auditors be re-appointed for the ensuing year subject to shareholders' approval at the forthcoming AGM.

Annually, the AC meets with the internal auditors and the external auditors separately in the absence of the management to review the adequacy of audit arrangements, with particular emphasis on the scope and quality of their audits, the independence and objectivity of the external auditors and the observations of the auditors.

The AC is satisfied that the Company has complied with the requirements of Rules 712, and 716 of the Rules of Catalist in relation to the appointment of SyCip Gorres Velayo & Co., Ernst & Young Taiwan and Ernst & Young LLP Singapore as its auditing firms. The AC has accordingly recommended to the Board the nomination of the external auditors, SyCip Gorres Velayo & Co., Ernst & Young Taiwan and Ernst & Young LLP Singapore, for reappointment at the forthcoming AGM.

Fees paid to external auditors may be found in Note 24 of the financial statements of the annual report. There were no non-audit fees paid to them for the year ended 31 December 2019.

(D) SHAREHOLDER RIGHTS AND ENGAGEMENT

Shareholder Rights and Conduct of General Meetings

Principle 11: The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.

Engagement with Shareholders

Principle 12: The company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.

Engagement with Stakeholders

Principle 13: The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.

◎ Shareholder rights and Shareholder meetings

General meetings (including AGMs) are important forums for dialogue and interaction with shareholders. All shareholders are treated fairly and equitably by the Company and all shareholders will receive the notice of the general meeting and the accompanying documents in order to enable them to exercise their rights at the relevant meeting. All shareholders will be informed in the relevant notice or accompanying documents the rules governing voting at such meeting.

Further, the Company welcomes the views of the shareholders on matters concerning the Company and encourages shareholders' participation at the AGM. The chairmen of the AC, NC and RC of the Company are present at the general meetings to answer questions from the shareholders. The external auditors are also present to assist the Directors in addressing any relevant queries by shareholders. Although only majority of the Directors attended the general meetings last year, they had discussed with all the Directors on the issues that may be raised by the shareholders prior to the meeting and also post meeting and provided their inputs to address the shareholders' queries.

Under the Bye-Laws of the Company, shareholders can vote in person or by proxy through the appointment of not more than two (2) proxies to attend and vote on their behalf at general meetings of shareholders. There is no limit on the number of proxies for that can be appointed nominee companies.

Separate resolutions are proposed for substantially separate issues at the meeting, unless the issues are interdependent and linked so as to form one significant proposal, in which case the Company will explain the reasons for bundling the resolutions and disclose the material implications in the notice of the general meeting. Each item of special business included in the notice of the general meeting is accompanied, where appropriate, by an explanation for the proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting. All resolutions are voted by poll, following which the detailed results showing, inter alia, the number of votes cast for and against each resolution and the respective percentages will be announced.

The Company Secretary, with the assistance of his representative, prepares minutes of shareholders' meetings. These minutes are available to shareholders upon request, and such minutes which record substantial comments or queries from shareholders and responses from the Board and the management will be published on the Company's corporate website in as soon as practicable after such meetings.

In line with the continuing disclosure obligations of the Company pursuant to the Rules of the Catalist, the Board's policy is that all shareholders should be informed in a comprehensive manner and on a timely basis of all material developments that would be likely to materially affect the price or value of the Company's shares. The Board is of the view that the Company has been compliant with the continuing disclosure obligations under the Catalist Rules in ensuring that price and/or trade sensitive information is publicly released on a timely basis, and financial results and annual reports are announced or issued within the period stipulated under the Catalist Rules and applicable laws. All shareholders of the Company receive the annual report and notice of AGM. The notice of AGM is also advertised in the newspapers.

The Company is committed to achieving sustainable income and growth to enhance long-term shareholder return. The Company does not have a fixed policy on the payment of dividends. The form, frequency and amount of future dividends declared will depend on earnings, general financial position, results of operation, capital requirements, cash flow, general business condition, or development plans and other factors as the Directors may, in their absolute discretion, deem appropriate. No dividends shall be paid to the shareholders for the financial year ended 31 December 2019, to conserve cash to meet higher working capital requirements and capital expenditures so as to improve the efficiency of the Group's operations.

◎ Engagement with shareholders

The Company believes that a high standard of disclosure is key to raising the level of corporate governance. Apart from the SGXNET announcements on half and full year results and news releases and its annual report, the Company updates shareholders on its corporate developments and new initiatives through its corporate website at http://www.medtecs.com/en/. The Company currently does not have an investor relations policy. However, the shareholders can contact the Company with questions via investor.relations@medtecs.com, which has been made available on the Company's corporate website.

The Company values dialogue sessions with its shareholders. The Company believes in regular, effective and fair communication with shareholders and is committed to hearing shareholders' views and addressing their concerns.

◎ Engagement with stakeholders

The Company has identified material stakeholders as those who are impacted by the Group's business and operations as well as those who have a material impact on the success of the Group's business and operations. Such stakeholders include shareholders (including institutional and individual investors), customers, employees, government and policy-makers, local communities, suppliers, and financial institutions. The Company considers that addressing the feedback and needs of the material stakeholders is essential to the success of the Group's business as well as integral to achieving sustainable growth. The Company engages its stakeholders through various channels to ensure that the best business interests of the Group are balanced against the needs and interests of its stakeholders.

The Group engages with their different stakeholders through their website at http://www.medtecs.com/en/ (which provides for the various communication channels to the Company and its subsidiaries), at the Company's annual general meeting, through corporate publications and announcements, trade shows, charities and donations among others. Detailed explanation on this engagement process will be provided in the Sustainability Report to be issued by 31 May 2020.

(E) MATERIAL CONTRACTS

There were no material contracts entered into by the Company or any of its subsidiaries involving the interests of the CEO, each of the Directors or controlling shareholders, which are either still subsisting at the end of the financial year ended 31 December 2019 or if not subsisting, entered into since the end of the previous financial year ended 31 December 2018.

(F) DEALING IN SECURITIES

In line with the Rules of Catalist, the Company has adopted and implemented its own internal compliance code on dealing in securities. This has been made known to Directors, officers and staff of the Company and of the Group. In particular, it has been highlighted that it is an offence to deal in the

Company’s securities when the officers (Directors and employees) are in possession of unpublished material price sensitive information in relation to those securities. Dealings in the Company’s securities are prohibited one month prior to the announcement of the Company’s half year and full year results. The officers are also discouraged from dealing in the Company’s securities based on short-term considerations. The Company provides the window periods for dealing in the Company’s securities and issues reminders that the law on insider trading is applicable at all times.

The Board confirms that for the financial year ended 31 December 2019, the Company has complied with Rule 1204(19) of Rules of Catalist on dealing with securities.

(G) CATALIST SPONSOR

The Company is currently under the SGX-ST Catalist sponsor-supervised regime. The continuing sponsor of the Company is R & T Corporate Services Pte. Ltd. (the"Sponsor"). There was no non-sponsor fee paid by the Company to the Sponsor during the financial year ended 31 December 2019. The amount of fees paid to Rajah & Tann Singapore LLP, an affiliate of R & T Corporate Services Pte. Ltd., for work done in the financial year ended 31 December 2019, was approximately S$71,514.

(H) USE OF PLACEMENT PROCEEDS

The Company will make periodic announcements on the utilisation of the remaining US$1.4 million, representing 35.9% of the net proceeds of US$3.9 million from the private placement which was completed on 15 October 2015, as and when such remaining proceeds are materially disbursed pursuant to Rule 704(30).

LIST OF PROPERTIES

DESCRIPTION	LOCATION	AREA (in sq m	TENURE OF LEASE (yrs)
Land	Srok Kampong Siam Kampong Cham Province, Cambodia	183,267	70 years
Factory Building	Srok Kampong Siam Kampong Cham Province, Cambodia	40,064	70 years
Factory Building	Manhattan Special Economic Zone, Corner Public Road, Thanh Village, Sangkat, Bavet City, Svay Reang Province, Kingdom of Cambodia	13,146	50 years
Office space	Khan Toul Kork, Phnom Penh Cambodia	960	2 years
Industrial lot	7th Street, Phase II Mariveles Bataan,Philippines	17,856	25 years
Industrial lot	SBMA, Olongapo City, Bataan,Philippines	13,124	50 years
Industrial lot	7th Street, Phase II Mariveles Bataan,Philippines	2,756	50 years
Industrial lot	7th Street, Phase II Mariveles Bataan,Philippines	4,248	50 years
Industrial lot	7th Street, Phase II Mariveles Bataan,Philippines	5,000	50 years
Office space	7B Country Space Building 133 HV Dela Costa Street Makati City, Philippines	245	2 years
Factory and office building	Qinghe Economic Park GaoQing County, Zibo City Shandong, China	2,880	3 years
Factory building	202 Zhangshan Road, Renhe Town Yuhang District, Hangzhou, China	19,417	20 years
Land	202 Zhangshan Road, Renhe Town Yuhang District, Hangzhou, China	15,333	50 years
Office space	4F., 21 Merchant Road, Singapore 058267	5	2 years

MEDTECS INTERNATIONAL CORPORATION LIMITED

STATISTICS OF SHAREHOLDINGS

AS AT 27 MARCH 2020

Number of shares issued: 549,411,240
Class of shares: Ordinary shares
Voting Rights: On a show of hands, 1 vote for each member
On a poll, 1 vote for each ordinary share
No. of treasury shares: Nil

Distribution of Shareholdings

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS		NO. OF SHARES	%
1 - 99	3	0.06	61	0.00
100 - 1,000	206	4.10	90,117	0.02
1,001 - 10,000	2,969	59.12	7,759,607	1.41
10,001 - 1,000,000	1,817	36.18	155,042,622	28.22
1,000,001 AND ABOVE	27	0.54	386,518,833	70.35
TOTAL	**5,022**	**100.00**	**549,411,240**	**100.00**

Distribution of Shareholdings

AS AT 27 MARCH 2020

	Direct Interest	%	Deemed interest	%
Clement Yang Ker-Cheng[a]	24,673,285	4.49	33,075,198	6.02

(a) Clement Yang Ker-Cheng is deemed to be interested in 18,506,621 shares and 14,568,577 shares held by South World Investment Ltd. and Maybank Kim Eng Securities Pte. Ltd., respectively.

PERCENTAGE OF SHAREHOLDINGS IN PUBLIC'S HANDS

89.49% of the Company's shares are held in the hand of the public as defined in the Rules of Catalist. Accordingly, the Company has complied with Rule 723 of the Rules of Catalist.

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	CITIBANK NOMS SPORE PTE LTD	206,455,500	37.58
2	YANG CLEMENT K C	24,673,285	4.49
3	PHILLIP SECURITIES PTE LTD	22,516,290	4.10
4	RAFFLES NOMINEES(PTE) LIMITED	22,500,100	4.10
5	MAYBANK KIM ENG SECURITIES PTE.LTD	21,628,263	3.94
6	SOUTH WORLD INVESTMENTS LIMITED	18,506,621	3.37
7	DBS NOMINEES PTE LTD	7,446,100	1.36
8	CGS-CIMB SECURITIES (SINGAPORE) PTE LTD	6,649,300	1.21
9	HOLDRICH INTERNATIONAL LTD	6,321,630	1.15
10	TOP HONESTY INTERNATIONAL CORP	6,321,630	1.15
11	MORPH INVESTMENTS LTD	6,200,400	1.13
12	OCBC SECURITIES PRIVATE LTD	5,861,600	1.07
13	NEO YAM CHENG OR LEE KWEE LAN	4,087,300	0.74
14	LIM AND TAN SECURITIES PTE LTD	3,443,600	0.63
15	LIM YAH HWEI (LIN YAHUI)	3,200,000	0.58
16	UOB KAY HIAN PTE LTD	3,115,600	0.57
17	KOH CHIN HWA	3,091,700	0.56
18	CHUA CHIN TIAM	2,030,000	0.37
19	TANG AI LONG (CHEN AILONG)	1,955,000	0.36
20	LI JIANSHENG	1,700,000	0.31
	TOTAL	**377,703,919**	**68.77**

The Group’s Taiwan Depository Receipts (“TDRs”) were listed on the Taiwan Stock Exchange on 13 December 2002. The number of TDRs issued at that time was 22,000,000.

In May 2004, an additional 4,382,875 TDRs were issued because of a stock split. In October 2009, an additional tranche of 100,000,000 TDRs was issued and traded on the Taiwan Stock Exchange.

As at 27 March, 2020, the total number of TDR issued by the Company is 205,531,500, representing for 37.41% of the total number of shares in the capital of the Company.

INTERESTED PERSON TRANSACTIONS

For the financial year ended 31 December 2019, there were no interested person transactions exceeding S$100,000 in aggregate.

NOTICE OF ANNUAL GENERAL MEETING TO BE DESPATCHED IN DUE COURSE

Pursuant to the announcement released on 1 April 2020 the Company has obtained a waiver to comply with Rule 707(1) of the SGX-ST Listing Manual Section B: Rules of Catalist in relation to the annual general meeting of the Company for the financial year ended 31 December 2019 ("2019 AGM”), and an extension of time from 30 April 2020 to 29 June 2020 for the Company to hold the 2019 AGM. The Company will despatch the Notice of AGM at a later date in accordance with the requirements as to notice of general meetings under the Catalist Rules and will continue to provide material updates to shareholders on further developments as and when possible.

Financial Statements

Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2019
(Amounts in United States dollars unless otherwise stated)

The directors are pleased to present their report to the members together with the audited consolidated financial statements of Medtecs International Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet, profit and loss accounts, statement of comprehensive income and statement of changes in equity of the Company for the financial year ended 31 December 2019.

1. Directors

The directors of the Company in office at the date of this report are:

Clement Yang Ker-Cheng (Chairman)
Xia Junwei (Deputy Executive Chairman)
William Yang Weiyuan (Chief Executive Officer)
Wilfrido Candelaria Rodriguez (Chief Financial Officer)
Carol Yang Xiao-Qing
Lim Tai Toon
Nieh Chien-Chung

Pursuant to Rule 720(4) of the Listing Manual Section B: Rules of Catalist of the SGX-ST (the "Rules of Catalist"), Clement Yang Ker-Cheng retires and being eligible, offers himself for re-election.

In accordance with Bye-Law 86 of the Company's Bye-Laws, Carol Yang Xiao-Qing and Lim Tai Toon retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Bye-Law 85 of the Company's Bye-Laws, Nieh Chien-Chung retires by rotation and, being eligible, offers himself for re-election.

2. Arrangements to enable directors to acquire shares and debentures

Except as described in paragraph 6, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose object is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

(Amounts in United States dollars unless otherwise stated)

3. Directors' interests in shares or debentures

According to the register of directors' shareholdings, the following directors, who held office at the end of the financial year, had interests in the share capital and share options of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

	Direct interest			Deemed interest		
Name of directors	At 1 January 2019	At 31 December 2019	At 21 January 2020	At 1 January 2019	At 31 December 2019	At 21 January 2020
Ordinary shares of the Company at $0.05 each						
Clement Yang Ker-Cheng	24,673,285	24,673,285	24,673,285	33,075,198	33,075,198	33,075,198
Xia Junwei	–	–	–	81,862,275	81,862,275	81,862,275

Clement Yang Ker-Cheng is deemed to be interested in 18,506,621 shares, and 14,568,577 shares held by South World Investment Ltd. and Maybank Kim Eng Securities Pte. Ltd., respectively, as at 1 January 2019, 31 December 2019 and 21 January 2020.

Xia Junwei is deemed to be interested 81,862,275 shares held by DBS Nominees (Private) Limited as at 1 January 2019, 31 December 2019 and 21 January 2020.

	At 21 January 2019	At 31 December 2019	At 21 January 2020	Exercise price S$	Expiry Date
Options to subscribe for ordinary shares of the Company of $0.05 each					
Wilfrido Candelaria Rodriguez	300,000	300,000	300,000	0.094	10.05.2020

MEDTECS INTERNATIONAL CORPORATION LIMITED
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Directors' Report (continued)
(Amounts in United States dollars unless otherwise stated)

3. Directors' interests in shares or debentures (continued)

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year or at the end of the financial year.

4. Other information required by the SGX-ST

No material contracts to which the Company or any subsidiary is a party and which involve the interests of the Chief Executive Officer, each director or controlling shareholder, subsisted at the end of the financial year or have been entered into since the end of the previous financial year.

5. Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

6. Share options

Only confirmed full-time employees as well as directors of the Company (other than Clement Yang Ker-Cheng and William Yang Weiyuan) who are not controlling shareholders and their associates are eligible to receive options granted under the Medtecs Share Option Scheme (the "Scheme") renewed and amended on 30 April 2012. The Remuneration Committee administering the Scheme consists of:

Nieh Chien-Chung (Chairman)
Carol Yang Xiao-Qing
Lim Tai Toon

The aggregate number of ordinary shares subject to outstanding options granted under the Scheme shall not at any time exceed 15% of the issued share capital of the Company. The exercise price of the options shall be determined by the Committee and fixed at:

(i) a price (the "Market Price") equal to the average of the last dealt prices of the Company's shares, as determined by reference to the daily official list published by the SGX-ST for the 5 consecutive Market Days immediately prior to the relevant date of grant provided that in the case of a Market Day on which the Company's shares are not traded on the SGX-ST, the last dealt price for the Company's shares on such Market Day shall be deemed to be the last dealt price of the Shares on the immediately preceding Market Day on which the Company's shares were traded; or

6. Share options (continued)

(ii) a price which is set at a discount to the Market Price, provided that:

(a) the maximum discount shall be 20% of the Market Price as at the date of grant of the options; and

(b) any discount to be granted to Controlling Shareholders will have to be approved by shareholders of the Company in a general meeting and the discounted price shall not be less than the Group's net tangible assets per share as reflected in the latest audited financial statements of the Group.

Where the exercise price as determined above is less than the par value of the share, the exercise price shall be the par value.

The exercise period of the option with exercise price at Market Price commences on the first anniversary of the date of the grant while the exercise period for options with exercise price at a discount to the Market Price commences on the second anniversary of the grant. Options granted to executive directors and employees expire on the tenth anniversary of the date of grant while options granted to non-executive directors expire on the fifth anniversary of the date of grant.

Since the end of the previous financial year, there was no option granted by the Company. The share options do not entitle the holder to participate, by virtue of the options, in any share issue of any other corporation. A total of 1,875,000 share options have been exercised as at the date of this report. No options were granted to employees of related corporations.

Details of all options to subscribe for ordinary shares of the Company pursuant to the Scheme as at 31 December 2019 are as follows:

Expiry date	Exercise price (S$)	Number of options
11 May 2020	0.094	2,030,000
Total		2,030,000

MEDTECS INTERNATIONAL CORPORATION LIMITED
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Directors' Report (continued)
(Amounts in United States dollars unless otherwise stated)

6. Share options (continued)

Details of the options to subscribe for ordinary shares of the Company granted to directors and employees of the Group pursuant to the Scheme are as follows:

	Number of shares under option						
	Exercise Period	Granted during the year	Total granted	Total exercised	Total lapsed	Total not exercised as at 31 December 2019	Exercise price S$
Directors of the Company							
Clement Yang Ker-Cheng	13.09.2003-22.04.2014	–	2,260,800	–	2,260,800	–	–
Wilfrido Candelaria Rodriguez	06.07.2003-10.05.2020	–	1,035,000	–	735,000	300,000	0.094
Carol Yang Xiao-Qing	11.05.2012-10.05.2015	–	100,000	–	100,000	_	_
Other employees	06.07.2003-10.05.2020	–	24,357,200	1,875,000	20,752,200	1,730,000	0.094

No employee has received 5% or more of the total options available under the Scheme.

Since the commencement of the Scheme until the end of the financial year:

- No participant other than a director mentioned above has received 5% or more of the total options available under the Scheme; and
- No options that entitle the holder to participate, by virtue of the options, in any share issue of any other corporation have been granted.

7. Audit Committee

The Audit Committee ("AC") carried out its functions including the following:

- Reviewed the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and any announcements relating to the Company's financial performance;
  - Reviewed the half-yearly and annual financial statements and the auditors' report on the annual financial statements of the Group before they are presented to the Board, focusing on:
    - significant changes in accounting policies and issues which have a direct impact on financial statements and presentation of the financial statements;
    - compliance with accounting standards, legal and the SGX-ST requirements;
    - management judgments and estimates that may have a material impact on the Group; and
    - findings of the external auditors, including significant audit adjustments and any other matters which the external auditors would like to bring to the attention of the AC;
- Reviewed the audit plans and scope of audit examination of the internal and external auditors;
- Evaluated the cost effectiveness, independence and objectivity of external auditors;
- Reviewed the adequacy of the internal audit function (including the internal accounting controls) and the scope and results of the internal audit procedures;
- Ensured the adequacy of the co-operation given by management to the internal and external auditors;
- Evaluated the adequacy and effectiveness of the internal control systems including financial, operational, compliance and information technology controls, and risk management of the Group by reviewing written reports from the internal and external auditors, and the management's responses and actions to correct any deficiencies;
- Reviewed the assurance from the CEO and the CFO on the financial records and financial statements;
- Reviewed interested person transactions in accordance with the requirements of the Rules of Catalist;
- Met with the internal and external auditors, other committees, and the management to discuss any matters that these groups believe should be discussed privately with the AC;
- Reviewed legal and regulatory matters that may have a material impact or a possible impropriety on the financial statements, related compliance policies and programmes and any reports received from regulators;
- Reviewed the nature and extent of non-audit services provided by external auditors; reports actions and minutes of the AC to the Board of Directors with such recommendations as the AC considers appropriate;
- Made recommendations to the Board on: (i) the proposals to the shareholders on the appointment and removal of external auditors; and (ii) the remuneration and terms of engagement of the external auditors;
- Reviewed the policy and arrangements for concerns about possible improprieties in financial reporting or other matters to be safely raised, independently investigated and appropriately follows up on. The company publicly discloses, and clearly communicates to employees, the existence of a whistle-blowing policy and procedures for raising such concerns; and
- Considered other matters as requested by the Board.

The AC, having reviewed all non-audit services provided by the external auditors to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditors. The AC has also conducted a review of interested person transactions.

The AC convened four meetings during the year. The AC has also met with internal and external auditors, without the presence of the Company's management, at least once a year.

The Company confirms its compliance to Rules 712 and 716 in relation to its auditing firms. Further details regarding the AC are disclosed in the Report on Corporate Governance.

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Directors' Report (continued)
(Amounts in United States dollars unless otherwise stated)

8. Auditor

SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global Limited) have expressed their willingness to accept reappointment as auditor of the Group..

The partner in charge of SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global Limited) has not been in charge for more than 5 consecutive years of audit of the Group.

The table below sets out the names of the auditing firms appointed for all the significant subsidiaries of the Group:

Name of significant subsidiary	Name of auditing firm appointed
Universal Weavers Corporation	SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global Limited)
Medtecs (Cambodia) Corporation Limited	
Medtecs (Taiwan) Corporation	Ernst & Young (Taiwan)
Medtecs (Asia Pacific) Pte Ltd	Ernst & Young LLP (Singapore)

On behalf of the Board of Directors:

CLEMENT YANG KER-CHENG
Director

WILFRIDO CANDELARIA RODRIGUEZ
Director

Makati City, Philippines
April 9, 2020

MEDTECS INTERNATIONAL CORPORATION LIMITED
(Incorporated in Bermuda)
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Statement by Directors

We, Clement Yang Ker-Cheng and Wilfrido Candelaria Rodriguez, being two of the directors of Medtecs International Corporation Limited, do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheets, profit and loss accounts, statements of comprehensive income, statements of changes in equity and consolidated cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2019 and the results of the business, changes in equity and cash flows of the Group and the results of the business and changes in equity of the Company for the year ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors:

CLEMENT YANG KER-CHENG
Director

WILFRIDO CANDELARIA RODRIGUEZ
Director

Makati City, Philippines
April 9, 2020

Independent Auditor's Report

For the financial year ended 31 December 2019

To the Board of Directors of Medtecs International Corporation Limited

Opinion

We have audited the consolidated financial statements of Medtecs International Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2019, the profit and loss accounts, statements of comprehensive income and the statements of changes in equity of the Group and the Company and the consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the balance sheet, profit and loss accounts, statement of comprehensive income and the statements of changes in equity of the Company are properly drawn up in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)s) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the financial performance and changes in equity of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). 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 Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. 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. For the matters below, our description of how our audit addressed the matters are provided in that context.

We have fulfilled our responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Assessment of inventory valuation

The Group has inventories amounting to USD37.8 million as of 31 December 2019 or about 32% of total assets of the Group. The related allowance for inventory obsolescence amounted to USD2.3 million as of 31 December 2019. Judgment is required in assessing the recoverability of the inventories. The Group recognizes provision for inventory obsolescence when the net realizable values of the inventory become lower than cost. We consider this a key audit matter since inventory constitutes a significant part of the Group's assets and management judgment is required in estimating the inventory's net realizable value.

Disclosures relating to the judgment in recognizing allowance for inventory obsolescence can be found in Notes 2.4 and 13 to the consolidated financial statements.

Audit response

We obtained an understanding of the Group's inventory valuation process and performed test of controls. We obtained and reviewed management's assessment of the net realizable values of inventories. We tested management's costing procedure in evaluating the weighted average unit cost per inventory item. On a sample basis, we tested the net realizable value by obtaining the selling price and cost to sell of the inventories based on their recent transactions. Also, we attended the inventory counts of the major subsidiaries and observed management procedures in identifying obsolete inventories.

Impairment testing of goodwill

As of December 31, 2019, the Group's goodwill has a balance of USD709,000. The annual impairment test is significant to the audit because the process involves significant management judgement, is complex, and is based on assumptions that can be affected by future market and economic conditions.

Disclosure relating to impairment testing of goodwill is in Note 10 to the consolidated financial statements.

Audit response

We involved our internal specialist in assessing the methodology and assumptions used in determining the recoverable amount of the cash generating unit (CGU). We compared significant assumptions used, such as budgeted gross margin and growth rate against historical data and industry outlook. Our internal specialist reviewed the discount rates by performing an independent testing on the derivation of the discount rates using market-based parameters. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment testing is most sensitive.

Adoption of SFRS(I) 16, Leases

Effective January 1, 2019, the Group adopted Singapore Financial Reporting Standards (SFRS (I)) 16, *Leases,* under the modified retrospective approach which resulted in significant changes in the Group's accounting policy for leases. The Group's adoption of SFRS (I) 16 is significant to our audit because the recorded amounts are material to the consolidated financial statements, the adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Group is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right of use assets and lease liability amounting to USD6,128,000 and USD3,495,000, respectively, as of January 1, 2019, and the recognition of depreciation expense and interest expense of USD687,000 and USD283,000, respectively, for the year ended December 31, 2019.

Refer to Notes 2.2, 2.22 (a) and 29 to the consolidated financial statements for the details of the adoption of SFRS(I) 16.

Audit Response
We obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by SFRS(I) 16, the application of the short-term and low value assets exemption, the selection of the transition approach and any election of available practical expedients.

On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of SFRS(I) 16 and new lease agreements), identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of financial impact of SFRS(I) 16, including the transition adjustments.

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of SFRS(I) 16 and SFRS(I) 1-8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Other Information

Management is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and 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, 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 Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

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 SSAs 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.

As part of an audit in accordance with SSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Jose Pepito E. Zabat III.

SYCIP GORRES VELAYO & CO.
(A Member Firm of Ernst & Young Global Limited)
Certified Public Accountants

Makati City, Philippines
April 9, 2020

MEDTECS INTERNATIONAL CORPORATION LIMITED
(Incorporated in Bermuda)
AND ITS SUBSIDIARIES

BALANCE SHEETS

AS AT 31 DECEMBER 2019
(Amounts in United States dollars)

		Group		Company	
		2019	2018	2019	2018
	Note	$'000	$'000	$'000	$'000
Assets					
Non-current assets					
Property, plant and equipment	6	19,170	21,600	43	44
Investment properties	7	2,950	3,061	–	–
Assets held for leasing	8	6,087	6,317	–	–
Right-of-use assets	29	5,441	–	115	–
Investment in subsidiaries	9	–	–	24,883	24,883
Goodwill	10	709	709	–	–
Deferred tax assets	25	21	13	14	13
Other non-current assets	12	6,934	6,744	3,796	3,800
		41,312	38,444	28,851	28,740
Current assets					
Inventories	13	37,844	33,850	78	77
Trade receivables	14	13,344	14,727	5,749	7,034
Other current assets	15	16,103	17,088	12,349	15,477
Due from subsidiaries (trade)	11	–	–	–	34,676
Fixed deposits	16	4,930	4,260	–	250
Cash and bank balances	16	3,070	4,521	46	46
		75,291	74,446	18,222	57,560
Total assets		116,603	112,890	47,073	86,300

he accompanying accounting policies and explanatory notes form an integral part of the financial statements.

MEDTECS INTERNATIONAL CORPORATION LIMITED
(Incorporated in Bermuda)
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BALANCE SHEETS (continued)

AS AT 31 DECEMBER 2019
(Amounts in United States dollars)

		Group		Company	
		2019	2018	2019	2018
	Note	$'000	$'000	$'000	$'000
Equity and liabilities					
Current liabilities					
Trade payables and other current liabilities	17	3,836	6,801	335	730
Due to subsidiaries (trade)	11	–	–	18,045	56,588
Term loans (current portion)	18	387	2,185	–	1,250
Bank loans	18	36,279	32,716	–	–
Income tax payable		900	1,097	1	2
		41,402	42,799	18,381	58,570
Net current assets/(liabilities)		33,889	31,647	(159)	(1,010)
Non-current liabilities					
Term loans	18	5,870	5,913	3,750	3,750
Lease liabilities	29	3,563	–	258	–
Deferred tax liabilities	25	213	202	–	–
Pension benefit obligation	21	927	585	225	133
Deferred lease income	29	38	43	–	–
		10,611	6,743	4,233	3,883
Total liabilities		52,013	49,542	22,614	62,453
Net assets		64,590	63,348	24,459	23,847

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

MEDTECS INTERNATIONAL CORPORATION LIMITED
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BALANCE SHEETS (continued)

AS AT 31 DECEMBER 2019
(Amounts in United States dollars)

		Group		Company	
		2019	2018	2019	2018
	Note	$'000	$'000	$'000	$'000
Equity attributable to equity holders of the Company					
Share capital	3	27,471	27,471	27,471	27,471
Share premium		4,721	4,721	4,721	4,721
Employee share option reserve	4	294	294	294	294
Equity component of convertible bonds	5	267	267	267	267
Revenue reserves/(deficit)	5	30,747	29,585	(8,318)	(9,000)
Remeasurement gains	21	6	249	24	94
Foreign currency translation reserves	5	231	(88)	–	–
Other reserves	3	(167)	(167)	–	–
		63,570	62,332	24,459	23,847
Non-controlling interests		1,020	1,016	–	–
Total equity		64,590	63,348	24,459	23,847
Total equity and liabilities		116,603	112,890	47,073	86,300

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

MEDTECS INTERNATIONAL CORPORATION LIMITED
(Incorporated in Bermuda)
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PROFIT AND LOSS ACCOUNTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019
(Amounts in United States dollars)

		Group		Company	
		2019	2018	2019	2018
	Note	$'000	$'000	$'000	$'000
Revenue	19	68,977	68,304	12,589	13,425
Costs of sales and services		(58,446)	(58,020)	(9,386)	(11,132)
Gross profit		10,531	10,284	3,203	2,293
Other items of income					
Other income - net	20	759	449	239	126
Financial income	22	209	111	1	1
Other items of expense					
Distribution and selling expenses		(2,600)	(2,683)	(322)	(397)
Administrative expenses		(4,896)	(4,977)	(1,447)	(1,479)
Financial expenses	23	(2,486)	(1,998)	(992)	(812)
Profit/(loss) before tax		1,517	1,186	682	(268)
Income tax expense	25	(351)	(272)	–	(2)
Net profit/(loss) for the year		1,166	914	682	(270)
Attributable to:					
Equity holders of the Company		1,162	914	682	(270)
Non-controlling interests		4	–	–	–
Net profit/(loss) for the year		1,166	914	682	(270)
Earnings per share attributable to the equity holders of the Company (cents per share)	26				
- basic		0.211	0.166		
- fully diluted		0.211	0.166		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

MEDTECS INTERNATIONAL CORPORATION LIMITED
(Incorporated in Bermuda)
AND ITS SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019
(Amounts in United States dollars)

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Net profit/(loss) for the year	1,166	914	682	(270)
Other comprehensive income/(loss):				
Items that will be reclassified to profit or loss:				
Translation adjustments	319	(665)	–	–
Items that will not be reclassified to profit or loss:				
Remeasurement gains/(losses)	(243)	176	(70)	63
Total comprehensive income/(loss)	1,242	425	612	(207)
Attributable to:				
Equity holders of the Company	1,238	415	612	(207)
Non-controlling interests	4	10	–	–
Total comprehensive income/(loss)	1,242	425	612	(207)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

MEDTECS INTERNATIONAL CORPORATION LIMITED
(Incorporated in Bermuda)
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STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019
(Amounts in United States dollars)

2019 Group	Share capital (Note 3) $'000	Share premium $'000	Employee share option reserve (Note 4) $'000	Equity component of convertible bonds (Note 5) $'000	Remeasurement gains (losses) (Note 21) $'000	Foreign currency translation reserves (Note 5) $'000	Revenue reserves (Note 5) $'000	Other reserves (Note 3) $'000	Non-controlling interests (Note 3) $'000	Total equity $'000
Opening balance at 1 January 2019	27,471	4,721	294	267	249	(88)	29,585	(167)	1,016	63,348
Net profit for the year	–	–	–	–	–	–	1,162	–	4	1,166
<u>Other comprehensive income</u>										
Foreign currency translation reserves	–	–	–	–		319	–	–	–	319
Remeasurement loss	–	–	–	–	(243)	–	–	–	–	(243)
Other comprehensive income/(loss) for the year	–	–	–	–	(243)	319	–	–	–	76
Total comprehensive income/(loss) for the year	–	–	–	–	(243)	319	1,162	–	4	1,242
Closing balance at 31 December 2019	27,471	4,721	294	267	6	231	30,747	(167)	1,020	64,590

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

MEDTECS INTERNATIONAL CORPORATION LIMITED
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STATEMENTS OF CHANGES IN EQUITY (continued)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019
(Amounts in United States dollars)

2018 Group	Share capital (Note 3) $'000	Share premium $'000	Employee share option reserve (Note 4) $'000	Equity component of convertible bonds (Note 5) $'000	Remeasurement gains (losses) (Note 21) $'000	Foreign currency translation reserves (Note 5) $'000	Revenue reserves (Note 5) $'000	Other reserves (Note 3) $'000	Non-controlling interests (Note 3) $'000	Total equity $'000
Opening balance at 1 January 2018	27,471	4,721	294	267	73	587	28,671	(167)	1,006	62,923
Net profit for the year	–	–	–	–	–	–	914	–	–	914
Other comprehensive income										
Foreign currency translation reserves	–	–	–	–	–	(675)	–	–	10	(665)
Remeasurement gains	–	–	–	–	176	–	–	–	–	176
Other comprehensive income/(loss) for the year	–	–	–	–	176	(675)	–	–	10	(489)
Total comprehensive income/(loss) for the year	–	–	–	–	176	(675)	914	–	10	425
Closing balance at 31 December 2018	27,471	4,721	294	267	249	(88)	29,585	(167)	1,016	63,348

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

MEDTECS INTERNATIONAL CORPORATION LIMITED
(Incorporated in Bermuda)
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STATEMENTS OF CHANGES IN EQUITY (continued)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019
(Amounts in United States dollars)

Company	Share capital (Note 3) $'000	Share premium $'000	Employee share option reserve (Note 4) $'000	Equity component of convertible bonds (Note 5) $'000	Remeasurement gains (losses) (Note 21) $'000	Deficit (Note 5) $'000	Total deficit $'000	Total Equity $'000
Opening balance at 1 January 2018	27,471	4,721	294	267	31	(8,730)	(8,138)	24,054
Net loss for the year	–	–	–	–	–	(270)	(270)	(270)
Other comprehensive income for the year	–	–	–	–	63	–	63	63
Total comprehensive income/(loss) for the year	–	–	–	–	63	(270)	(207)	(207)
Balance at 31 December 2018 and 1 January 2019	27,471	4,721	294	267	94	(9,000)	(8,345)	23,847
Net profit for the year	–	–	–	–	–	682	682	682
Other comprehensive loss for the year	–	–	–	–	(70)	–	(70)	(70)
Total comprehensive income/(loss) for the year	–	–	–	–	(70)	682	612	612
Closing balance at 31 December 2019	27,471	4,721	294	267	24	(8,318)	(7,733)	24,459

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

MEDTECS INTERNATIONAL CORPORATION LIMITED
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CONSOLIDATED CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019
(Amounts in United States dollars)

	Note	2019 $'000	2018 $'000
Operating activities			
Profit before tax		1,517	1,186
Adjustments for:			
Depreciation and amortisation	6 and 7	2,292	2,429
Amortisation of assets held for leasing	8 and 24	2,832	2,525
Amortisation of right-of-use assets	29	687	–
Interest expense on loans and lease liabilities	23	2,287	1,797
Provisions for inventory obsolescence	13	246	450
Provisions for impairment of receivables		–	150
Other finance costs	23	199	201
Interest income	22	(209)	(111)
Gain on disposal of property, plant and equipment	20	(8)	(29)
Operating cash flows before changes in working capital		9,843	8,598
(Increase)/decrease in:			
Inventories		(4,162)	(152)
Trade receivables		1,552	25
Other current assets		163	(114)
Increase/(decrease) in:			
Pension benefits obligation		99	82
Trade payables and other current liabilities		(2,590)	(1,455)
Trust receipts and acceptances payable		–	(597)
Cash flows from operations		4,905	6,387
Interest received		209	111
Income taxes paid		(545)	(672)
Other finance cost paid		(199)	(201)
Net cash flows from operating activities		4,370	5,625

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

MEDTECS INTERNATIONAL CORPORATION LIMITED
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CONSOLIDATED CASH FLOW STATEMENT (continued)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019
(Amounts in United States dollars)

	Note	2019 $'000	2018 $'000
Investing activities			
Proceeds from disposal of:			
Property, plant and equipment		356	1,189
Assets held for leasing		18	–
Increase in other non-current assets		(451)	(687)
Purchases of:			
Property, plant and equipment	6	(1,952)	(1,615)
Assets held for leasing	8	(2,620)	(3,694)
Net cash flows used in investing activities		(4,649)	(4,807)
Financing activities			
Payment of term loans		(1,841)	(93)
Increase in fixed deposits		(670)	(1,606)
Interest paid		(2,004)	(1,797)
Net proceeds from short- term bank loans		3,563	5,425
Payment of lease liabilities		(215)	-
Increase (decrease) in other non-current liability		(5)	43
Net cash flows from (used in) financing activities		(1,172)	1,972
Net increase (decrease) in cash and bank balances		(1,451)	2,790
Cash and bank balances at 1 January		4,521	1,731
Cash and bank balances at 31 December	16	3,070	4,521

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

MEDTECS INTERNATIONAL CORPORATION LIMITED
(Incorporated in Bermuda)
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NOTES TO THE FINANCIAL STATEMENTS
(Amounts in United States dollars unless otherwise stated)

1. CORPORATE INFORMATION

Medtecs International Corporation Limited (the "Company") is a limited liability company, which is domiciled in the Philippines, incorporated in Bermuda and is listed on the Catalist board of the Singapore Exchange Securities Trading Limited (SGX-ST Catalist).

The Company's registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at 7B Country Space1 Building, 133 H.V. Dela Costa St., Makati City, Philippines.

The principal activities of the Company are the manufacture and sale of medical supplies and equipment and woven and knitted medical textile products. The principal activities of the subsidiaries are set out in Note 9 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

2.1 Basis of preparation

The consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") and the balance sheets, profit and loss account, statement of comprehensive income and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)).

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in United States dollars (US$) and all values in the tables are rounded to the nearest thousand ($'000) unless otherwise indicated.

2.2 Adoption of new and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Group has adopted all the new and amended standards which are relevant to the Group and are effective for annual financial periods beginning on or after 1 January 2019. Except for the adoption of SFRS(I) 16 *Leases* described below, the adoption of these standards did not have any material effect on the financial performance or position of the Group.

SFRS(I) effective for annual period beginning on or after 1 January 2019

The following standards and interpretations are effective for the annual period beginning on or after 1 January 2019:

- SFRS(I) 16 *Leases*
- SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*
- Amendments to SFRS(I) 19 *Plan Amendment, Curtailment or Settlement*
- Amendments to SFRS(I) 28 *Long-term Interests in Associates and Joint Ventures*
- Amendments to SFRS(I) 109 *Prepayment Features with Negative Compensation*
- Annual Improvements to SFRS(I) (March 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.2 Adoption of new and amended standards and interpretations (continued)

SFRS(I) 16 *Leases*

SFRS(I) 16 supersedes SAS 17 *Leases*, SFRS(I) INT 104 *Determining whether an Arrangement contains a Lease*, SFRS(I) INT 15 *Operating Leases-Incentives* and SFRS(I) INT 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Group adopted SFRS(I) 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application as an adjustment to the opening balance of retained earnings. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying SFRS(I) 17 and SFRS(I) INT 104 at the date of initial application.

The effect of adopting SFRS(I) 16 as at 1 January 2019 was as follows:

	Increase/(decrease) **$'000**
Right-of-use assets	6,128
Lease liabilities	3,495
Trade payables and other current liabilities	(303)
Other current assets	(822)
Property, plant and equipment	(1,798)
Other non-current assets	(316)

The Group has lease contracts for land and buildings. Before the adoption of SFRS(I) 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. The accounting policy prior to 1 January 2019 is disclosed in Note 2.22.

Upon adoption of SFRS(I) 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The accounting policy beginning on and after 1 January 2019 is disclosed in Note 2.22. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

MEDTECS INTERNATIONAL CORPORATION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (continued)
(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.2 Adoption of new and amended standards and interpretations (continued)

The Group also applied the available practical expedients wherein it:

- opted not to reassess whether a contract is, or contains a lease at the date of initial application and to apply SFRS(I) 16 to all contracts that were previously identified as leases
- to apply the exemption not to recognise right-of-use asset and lease liabilities to leases for which the lease term ends within 12 months as of 1 January 2019
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics

Based on the above, as at 1 January 2019:

- right-of-use assets of $6,128,000 were recognised; and
- lease liabilities of $3,495,000 were recognised.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	$'000
Operating lease commitments as at 31 December 2018	5,553
Less:	
Commitments relating to short-term leases	(624)
	4,929
Weighted average incremental borrowing rate as at 1 January 2019	3.28% to 12.46%
Lease liabilities as at 1 January 2019	3,495

<u>SFRS(I) INT 23, *Uncertainty over Income Tax Treatments*</u>

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of SAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of SAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.2 Adoption of new and amended standards and interpretations (continued)

SFRS(I) INT 23, *Uncertainty over Income Tax Treatments* (continued)

The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Based on the Group's assessment, it has no uncertain tax treatments, accordingly, the adoption of this Interpretation has no impact on the consolidated financial statements.

2.3 Standards issued but not yet effective

The Group has not adopted the following standards and interpretation that have been issued but not yet effective:

Description	*Effective for annual periods beginning on or after*
Amendments to References to the Conceptual Framework in SFRS(I) Standards	1 January 2020
Amendments to SFRS(I)1 and SFRS(I) 8 *Definition of Material*	1 January 2020
Amendments to SFRS(I) 3 *Definition of a Business*	1 January 2020
Amendments to SFRS(I) 109, SFRS(I) 39, and SFRS(I) 107 *Interest Rate Benchmark Reform*	1 January 2020
SFRS(I) 17 *Insurance Contracts*	1 January 2021
Amendments to SFRS(I) 10 and SFRS(I) 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Date to be determined

The directors expect that the adoption of the standards above will have no material impact on the financial statements in the year of initial application.

2.4 Significant accounting estimates and judgments

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

In the process of applying the Group's accounting policies, management has made the following judgments detailed on the next pages apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements.

MEDTECS INTERNATIONAL CORPORATION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (continued)
(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.4 Significant accounting estimates and judgments (continued)

a) Judgments made in applying accounting policies

i) Determination of functional currency

The functional currency of the individual companies within the Group has been determined by management based on the currency that most faithfully represents the primary economic environment in which the individual companies operate and it is the currency that mainly influences the underlying transactions, events and conditions relevant to the individual companies within the Group.

ii) Determination of the significant parts or components of the property, plant and equipment for depreciation

The Group has determined that it has appropriately identified the significant parts or components of the property, plant and equipment for depreciation purposes.

iii) Determination of lease term of contracts with extension options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to extend the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the extension. After the commencement date, the Group reassesses the lease term whether there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to extend (e.g. construction of significant leasehold improvements or significant customisation to the leased asset).

The Group included the extension options in the lease term for the leases of certain land as it will entail additional cost for the Group to look for other locations for their operations. However, the extension option for lease of a remaining land is not included as part of the lease term because it is not reasonably certain for the Group to exercise the option as the extension requires a mutual agreement between the lessee and the lessor.

As at 31 December 2019, potential future (undiscounted) cash outflows of approximately $3,072,000, which will mature within 28 to 53 years, have not been included in lease liabilities because it is not reasonably certain that the leases will be extended.

iv) Distinction between investment property and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process. When properties comprise a portion that is held to earn rentals or for capital appreciation and another portion is held for use in the production or supply of goods or services or for administrative purpose, and these portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making judgment. The carrying amount of the Group's investment properties as at 31 December 2019 was $2.95 million (2018: $3.1 million). More details are given in Note 7.

NOTES TO THE FINANCIAL STATEMENTS (continued)
(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.4 Significant accounting estimates and judgments (continued)

a) Judgments made in applying accounting policies (continued)

v) Determination of subsidiary/ies that has/have material non-controlling interest

The Group determines whether a subsidiary has a material non-controlling interest based on the profit or loss or other comprehensive income of the subsidiary attributable to the non-controlling interest to the Group's profit or loss or other comprehensive income for the reporting period, respectively, and the carrying amount of the non-controlling interest attributable to the subsidiary relative to the net equity of the Group, among others. The Group has not identified a subsidiary that has a material non-controlling interest.

vi) Estimating variable consideration

Management has determined that the expected value method would be appropriate in estimating the variable consideration. Management has exercised judgment in applying the constraint on the estimated variable consideration that can be included in the transaction price since the amount is highly susceptible to factors outside the Group's influence and has a large number and broad range of possible consideration.

vii) Recognition of revenue from rendering of service

The obligation to provide the service is satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group. The Group measures the satisfaction of the performance obligation based on the value transferred to the customer. The Group will apply the right to invoice practical expedient that allows the Group to recognize revenue as invoiced which is the amount that corresponds directly with the value to the customer of the entity's performance to date.

b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

i) Impairment of goodwill, property, plant and equipment, investment property and assets held for leasing

The Group determines whether goodwill, property, plant and equipment, investment property and assets held for leasing are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the assets are allocated. Estimating the value in use requires the Group to make estimates of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the Group's goodwill, property, plant and equipment, investment property and assets held for leasing as at 31 December 2019 were $709,000 (2018: $709,000), $19.2 million (2018: $21.6 million), $2.95 million (2018: $3.1 million) and $ 6.1 million (2018: $6.3 million), respectively. No impairment charge was made against any of the assets in 2019 and 2018.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.4 Significant accounting estimates and judgments (continued)

b) Key sources of estimation uncertainty (continued)

The carrying amount of the Company's property, plant and equipment as at 31 December 2019 was $43,000 (2018: $44,000). More details are given in Notes 6, 7, 8 and 10.

ii) Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax provisions already recorded.

The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the relevant tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile. The carrying amount of the Group's income tax payable as at 31 December 2019 was $900,000(2018: $1.1 million). The carrying amount of the Company's income tax payable as at 31 December 2019 was $1,000 (2018: $2,000).

iii) Deferred taxes

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The carrying amount of the Group's recognised deferred tax assets and deferred tax liabilities as at 31 December 2019 were $21,000 (2018: $13,000) and $213,000 (2018: $202,000), respectively. The carrying amount of the Company's recognised deferred tax assets as at 31 December 2019 were $14,000 (2018: $13,000). More details are given in Note 25.

iv) Provision for expected credit losses (ECLs) of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on months past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At every reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.4 Significant accounting estimates and judgments (continued)

b) Key sources of estimation uncertainty (continued)

The assessment of the correlation between historical observed default rates, forecast economic conditions (gross domestic product growth rates, gross national income growth rates, net primary income rates, consumer price index and inflation rates) and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 14.

The carrying amount of trade receivables as at 31 December 2019 are $13.3 million (2018: $14.7 million). The Group recognised provision for ECL amounting to nil in 2019 (2018: $100,000).

v) Useful lives of property, plant and equipment and investment property

The Group estimates the useful lives of its property, plant and equipment and investment properties based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of the property, plant and equipment and investment properties based on factors that include asset utilisation, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

The carrying amount of the Group's property, plant and equipment and investment properties as at 31 December 2019 were $19.2 million (2018: $21.6 million) and $2.95 million (2018: $3.1 million), respectively. The carrying amount of the Company's property, plant and equipment as at 31 December 2019 was $43,000 (2018: $44,000). More details are given in Notes 6 and 7.

vi) Allowance for inventory obsolescence

The Group recognises provision for inventory obsolescence when the net realisable values of inventory items become lower than cost due to obsolescence or other causes. Obsolescence is based on the physical and internal condition of inventory items. Obsolescence is also established when inventory items are no longer marketable. Obsolete goods, when identified, are charged to costs and are written down to its net realisable value. The Group reviews on a monthly basis the condition of its inventories. The assessment of the condition of the inventory items either increases or decreases the expenses or total inventory costs. The Group's allowance for inventory obsolescence as at 31 December 2019 was $2.3 million (2018: $2.1 million). The Company's allowance for inventory obsolescence as at 31 December 2019 was nil (2018: nil). As at 31 December 2019, the carrying amount of the Group's inventories, net of allowance for inventory obsolescence, was $37.8 million (2018: $33.9 million). The carrying amount of the Company's inventories, net of allowance for inventory obsolescence, as at 31 December 2019 was $78,000 (2018: $77,000). More details are given in Note 13.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.4 Significant accounting estimates and judgments (continued)

b) Key sources of estimation uncertainty (continued)

vii) Pension benefits obligation

The determination of the obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. These assumptions include, among others, discount rates and salary increase rates. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations. The carrying amount of the Group's pension benefits obligation as at 31 December 2019 was $927,000 (2018: $585,000). The carrying amount of the Company's pension benefits obligation as at 31 December 2019 was $225,000 (2018: $133,000). More details are given in Note 21.

viii) Fair value of share options

The fair value of the share options is estimated as of the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The Group uses its judgment on the inputs to the model used and makes assumptions that are mainly based on the conditions as of the date of grant. The carrying amount of the Group's and Company's employee share option reserve as at 31 December 2019 and 2018 was $294,000. More details are given in Note 4.

ix) Contingencies

In the ordinary course of business, certain companies in the Group are parties in various litigations and claims. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsels handling the Group's defense in these matters and is based upon an analysis of potential results.

Although there can be no assurances, management believes, based on information currently available and professional legal advice, that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of operations, financial position or liquidity of the Group. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these litigations and claims.

x) Estimating the Incremental Borrowing Rate of the Leases

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU assets in a similar economic environment. The incremental borrowing rate therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Group's stand-alone credit rating).

The Group's lease liabilities amounted to $3,563,000 as at December 31, 2019 (see Note 29).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.5 Subsidiaries and basis of consolidation

a) Subsidiaries

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed or has rights to the variable returns from its involvement with the investee and has the ability to affect those returns through the power over the investee.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses. The Company recognizes income from investment only to the extent that the Company receives distribution from accumulated profits of the subsidiary arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income 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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

i. De-recognises the asset (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
ii. De-recognises the carrying amount of any non-controlling interest;
iii. De-recognises the cumulative translation differences recorded in equity;
iv. Recognises the fair value of the consideration received;
v. Recognises the fair value of any investment retained;
vi. Recognises any surplus or deficit in profit or loss;
vii. Re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

c) Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in profit or loss.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.5 Subsidiaries and basis of consolidation (continued)

c) Business combinations and goodwill (continued)

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another SFRS(I).

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 2.11. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

The cash-generating units to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates.

2.6 Transactions with non-controlling interest

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2.7 Functional and foreign currency

a) Functional and presentation currency

The Group's consolidated financial statements are expressed in US$, which is also the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using the functional currency.

The management has determined the currency of the primary economic environment in which the Company operates to be the US$. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by the fluctuation of the US$.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.7 Functional and foreign currency (continued)

a) Functional and presentation currency (continued)

Transactions in foreign currencies are measured in the respective functional currencies of the individual companies within the Group and are recorded on initial recognition in the functional currencies at exchange rates approximating those prevailing at transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange prevailing at the end of the reporting period. 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 rate at the date when the fair value was determined.

b) Foreign currency translations and balances

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in the profit and loss accounts, except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserves in equity. The foreign currency translation reserve is reclassified from equity to the profit and loss accounts of the Group on disposal of the foreign operations. In the Company's separate financial statements, such exchange differences are recognised in the profit and loss accounts.

The results and financial position of foreign operations are translated into US$ using the following procedures:

- Assets and liabilities of foreign operations are translated at the closing rate prevailing at the end of the reporting period; and
- Income and expenses for each profit and loss account are translated at average monthly exchange rates, which approximate the exchange rates at the dates of the transactions.

All resulting exchange differences are recognised as a separate component of equity under foreign currency translation reserve account.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the end of the reporting period.

Goodwill and fair value adjustments which arose on acquisition of foreign subsidiaries before 1 January 2005 are deemed to be assets and liabilities of the Company and recorded in US$ at the rates prevailing at the time of acquisition.

On disposal of a foreign operation, the cumulative amount of exchange differences deferred in equity relating to that particular foreign operation is recognised in the profit and loss accounts as a component of the gain or loss on disposal.

In the case of a partial disposal without loss of control of a subsidiary that includes foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.8 Related parties

A related party is defined as follows:

(a) A person or close member of that person's family is related to the Group and Company if that person:
- i. Has control or joint control over the Company;
- ii. Has significant influence over the Company; or
- iii. Is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following condition applies:
- i. The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii. Both entities are joint venture of a third entity and the other entity is an associate of the third entity.
- iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v. The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
- vi. The entity is controlled or jointly controlled by a person identified in (a).
- vii. A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.9 Property, plant and equipment

a) Recognition and measurement

All items of property, plant and equipment are initially recorded at cost.

Subsequent to recognition, property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses.

b) Depreciation

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives. Leasehold buildings and improvements are depreciated over the term of the lease or the life of the asset, whichever is shorter. The estimated useful lives of property, plant and equipment are as follows:

	Years
Machinery, equipment and others	10 - 15
Furniture, fixtures and equipment	3 - 10
Transportation equipment	5 - 10
Leasehold improvements	3 - 10

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.9 Property, plant and equipment (continued)

The residual values, useful lives and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate, to ensure that the values, period and method of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

c) Subsequent expenditure

Subsequent expenditure, excluding the cost of day-to-day servicing, relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits will flow to the Group and the cost can be reliably measured.

Such expenditure includes the cost of replacing part of such property, plant and equipment when the cost is incurred, if the recognition criteria are met. Other subsequent expenditure is recognised as an expense in the profit and loss accounts during the year in which it is incurred.

d) Disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset calculated as the difference between the net disposal proceeds and the carrying amount of the item is included in the profit and loss accounts in the year the asset is derecognised.

2.10 Investment properties

Investment properties are properties that are either owned by the Group or leased under a finance lease in order to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or service, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties and properties that are being constructed or developed for future use as investment properties. Properties held under operating leases are classified as investment properties when the definition of investment properties is met and they are accounted for as finance lease.

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is computed on a straight-line basis over the estimated useful life of 10-48 years or term of the lease, whichever is shorter.

Investment properties are derecognised when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property calculated as the difference between the net disposal proceeds and the carrying amount of the item is recognised in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.10 Investment properties (continued)

Transfers are made from investment property when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

2.11 Intangible assets

Goodwill

Goodwill acquired in a business combination is initially measured at cost. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit and loss accounts. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 2.7.

Goodwill and fair value adjustments which arose on acquisitions of foreign operations before 1 January 2005 are deemed to be assets and liabilities of the Company and are recorded in US$ at rates prevailing at the date of acquisition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.12 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset’s recoverable amount is the higher of an asset’s or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money paid and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group’s cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are covering generally a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the profit and loss accounts in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For asset excluding goodwill, assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset’s or cash-generating unit’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.If that is the case, the carrying amount of the asset is increased to its recoverable amount.That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised previously. Such reversal is recognised in the profit and loss accounts unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.13 Financial instruments

a) Financial assets

i) Initial recognition and measurement

Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

ii) Subsequent measurement

<u>Investments in debt instruments</u>

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are:

1) Amortized cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

This accounting policy applies primarily to the Group's and Company's cash and bank balances, fixed deposits, trade and other receivables, advances to employees, and refundable deposits. The accounting policy also applies to the Company's due from subsidiaries (trade).

2) Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Financial assets measured at FVOCI are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses and interest calculated using the effective interest method which are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is de-recognised.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.13 Financial instruments (continued)

a) Financial assets (continued)

3) Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises.

Investments in equity instruments

On initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. Dividends from such investments are to be recognised in profit or loss when the Group's right to receive payments is established. For investments in equity instruments which the Group has not elected to present subsequent changes in fair value in OCI, changes in fair value are recognised in profit or loss.

ii) Subsequent measurement (continued)

Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value of derivatives are recognised in profit or loss.

iii) Derecognition of financial assets

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income for debt instruments is recognised in profit or loss.

b) Financial liabilities

i) Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

ii) Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.13 Financial instruments (continued)

b) Financial liabilities (continued)

iii) Derecognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. On derecognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

2.14 Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when the contractual payments are more than 1 month past due.

The Group considers a financial asset in default when contractual payments are 11 months past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.15 Cash and bank balances and fixed deposits

Cash and bank balances comprise of cash on hand, demand deposits and short-term, highly-liquid investments that are readily convertible to known amounts of cash, with maturities of up to three months from date of acquisition, and that are subject to an insignificant risk of changes in values. These also include bank overdrafts that form an integral part of the Group's cash management.

Fixed deposits are loan arrangements where specific amount of fund is placed on deposit under the name of the account holder. Fixed deposits cannot be withdrawn for a specified period of time and usually earn a fixed interest according to the terms and conditions that govern the loan which is usually current in nature.

2.16 Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and conditions are accounted for as follows:

- Raw materials: purchase costs on a weighted average method;
- Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.17 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of the reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. If the effect of time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability. When discounting is used, the increase in provision due to passage of time is recognised as a finance cost.

Provisions for warranty-related costs are recognised when the product is sold or service is provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.18 Financial guarantee

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are recognised as income in profit and loss over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to the profit and loss.

2.19 Borrowing costs

Borrowing costs are recognised in the profit and loss accounts as incurred, except to the extent that they are capitalised. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and the borrowing costs are incurred. Borrowing costs are capitalised until the assets are ready for their intended use or sale. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Deferred transaction costs represent costs incurred to obtain project financing. Deferred transaction costs are amortized, using the effective interest rate method, over the lives of the related long-term debt.

Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss accounts over the period of the borrowings using the effective interest rate method. Borrowings which are due to be settled within 12 months after the end of the reporting period are presented as current borrowings even though the original term was for a period longer than 12 months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the end of the reporting period and before the financial statements are authorised for issue. Other borrowings due to be settled more than 12 months after the end of the reporting period are presented as "Term loans” under non-current liabilities in the balance sheets.

2.21 Employee benefits

a) Defined benefits pension plans

The Group operates defined benefits pension plans. The pension benefits in the Philippines are unfunded and non-contributory covering substantially all the regular employees of the Group’s subsidiaries in the Philippines. Pension benefit expense is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees’ projected salaries. Pension benefit expense includes current service cost and interest cost. Remeasurement gains and losses are recognised under other comprehensive income in the period in which they occur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.21 Employee benefits (continued)

a) Defined benefits pension plans (continued)

The past service cost is recognised as an expense when the plan amendment occurs regardless of whether they are vested.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation reduced by past service cost not yet recognised.

b) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the subsidiaries in the Group operating in Singapore and Taiwan make contributions to the Central Provident Fund scheme, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

c) Employee share option plans

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for non-transferable share options (“equity-settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account is taken of any performance conditions.

The cost of equity-settled transactions is recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the profit and loss accounts for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.21 Employee benefits (continued)

c) Employee share option plans (continued)

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified if the original terms of the award are met. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transactions award are treated equally.

Share-based payment transaction in which the Company grants rights to its equity instruments direct to the employees of its subsidiaries is accounted for as equity-settled transactions. This applies to the separate or individual financial statements of the Company and its subsidiaries and also to the Group's consolidated financial statements.

The subsidiaries account for the transaction as an equity-settled share-based payment transaction, with a corresponding increase recognised in equity as a capital contribution from the parent. In this situation, the Company has made a capital contribution to the subsidiaries, by granting rights to its equity instruments direct to the subsidiaries' employees.

Similarly, in the Company's separate financial statements, the Company recognises the grant of equity instruments and the capital contribution made to its subsidiaries.

The Group has taken advantage of the transitional provisions of SFRS(I) 102 in respect of equity-settled awards and has applied SFRS(I) 102 only to equity-settled awards granted after 22 November 2002 that had not vested on or before 1 January 2005.

d) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. An estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

e) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.21 Employee benefits (continued)

e) Termination benefits (continued)

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after end of the reporting period are discounted to present value.

2.22 Leases

These accounting policies are applied on and after the initial application date of SFRS(I) 16, 1 January 2019:

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(a) As lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities representing the obligations to make lease payments and right-of-use assets representing the right to use the underlying leased assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated amortisation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are amortised on a straightline basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. The accounting policy for impairment is disclosed in Note 2.12.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.22 Leases (continued)

(a) As lessee (continued)

Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

(b) As lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising from operating leases on the Group's investment properties is accounted for on a straight-line basis over the lease terms. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

These accounting policies are applied before the initial application date of SFRS(I) 16, 1 January 2019:

(a) As lessee

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(b) As lessor

The accounting policy applicable to the Group as a lessor in the comparative period was the same as under SFRS(I) 16.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.23 Assets held for leasing

Assets held for leasing are carried at cost and consist mainly of medical clothes and quilts. These are amortised on a straight-line basis over five years.

Assets held for leasing are derecognised either when they have been disposed of or when the assets are permanently withdrawn from use and no future economic benefit is expected from the assets' disposal. Any gains or losses on the retirement or disposal of assets held for leasing are recognised in the profit and loss accounts in the year of retirement or disposal.

2.24 Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

The following specific recognition criteria must also be met before revenue is recognised:

a) Sale of goods

Revenue is recognised when the goods are delivered to the customer and all criteria for acceptance have been satisfied. The amount of revenue recognised is based on the estimated transaction price, which comprises the contractual price, net of the estimated volume discounts and adjusted for expected returns. Based on the Group's experience with similar types of contracts, variable consideration is typically constrained and is included in the transaction only to the extent that it is a highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group recognises the expected volume discounts payable to customer where consideration have been received from customers and refunds due to expected returns from customers as refund liabilities. Separately, the Group recognises a related asset for the right to recover the returned goods, based on the former carrying amount of the good less expected costs to recover the goods, and adjusts them against cost of sales correspondingly.

At the end of each reporting date, the Group updates its assessment of the estimated transaction price, including its assessment of whether an estimate of variable consideration is constrained. The corresponding amounts are adjusted against revenue in the period in which the transaction price changes. The Group also updates its measurement of the asset for the right to recover returned goods for changes in its expectations about returned goods.

The Group has elected to apply the practical expedient to recognise the incremental costs of obtaining a contract as an expense when incurred where the amortisation period of the asset that would otherwise be recognised is one year or less.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.24 Revenue recognition (continued)

b) Rendering of services

Management fee is recognised as earned when the service is rendered.

The obligation to provide the hospital services are obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group. The Group measures the satisfaction of the performance obligation based on the value transferred to the customer. The Group will apply the right to invoice practical expedient that allows the Group to recognize revenue as invoiced which is the amount that corresponds directly with the value to the customer of the entity's performance to date. The contracts with customers provide unspecified quantity of service that give rise to variable consideration. Under SFRS(I) 15, the variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved.

c) Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

d) Interest income

Interest income is recognised using the effective interest rate method.

2.25 Taxes

a) Current income tax

Current income tax assets and liabilities for the current and prior periods 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 by the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in the profit and loss accounts except to the extent that the tax relates to items recognised outside the profit and loss accounts, either in other comprehensive income or directly in equity. 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.25 Taxes (continued)

b) Deferred tax

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or 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 taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Where 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, associates 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 the end of the reporting period 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 end of the reporting period and are recognised to the extent that it has become probable that future taxable profit 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 to the year when the asset is realised or when the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

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 and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.25 Taxes (continued)

c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.26 Share capital and share issue expenses

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.27 Segment reporting

For management purposes, the Group is organised on a world-wide basis into three major geographical segments. The divisions are the basis on which the Group reports its primary segment information.

Segment revenues, expenses and results include transfers between geographical segments and between business segments. Such transfers are accounted for on an arm's-length basis.

2.28 Dividends

Cash dividends are recorded in the year in which they are approved by the shareholders.

2.29 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) A present obligation that arises from past events but is not recognised because:

  i. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  ii. the amount of obligation cannot be measured with sufficient reliability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.29 Contingencies (continued)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised at the end of the reporting date of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

2.30 Events after the reporting period

Post year-end events that provide additional information about the Group's financial position at the end of the reporting period (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

In an effort to contain the COVID-19 outbreak, countries around the world have taken steps to impose social distancing measures. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The Group considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended 31 December 2019. The Group remains in the forefront of safety and disease control prevention and management with its personal protective apparels. The global demand for personal protective equipment is currently at an all-time high. Considering the evolving nature of this outbreak, the Group cannot determine at this time the impact to its financial position, performance and cash flows. The Group will continue to monitor the situation.

2.31 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.31 Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.32 Earnings per share

Basic earnings per share are computed by dividing consolidated net income for the year attributable to the equity holders of the Company by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect for any stock dividends declared and stock rights exercised during the year.

Diluted earnings per share amounts are calculated by dividing the consolidated net income for the year attributable to the equity holders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalents. The Group does not have dilutive potential common shares.

3. SHARE CAPITAL

	Group and Company	
	2019	2018
	$'000	$'000
Authorised		
- 1,000,000,000 ordinary shares of $0.05 each	50,000	50,000
Issued and paid up		
As at 1 January and 31 December		
- 549,411,240 ordinary shares of $0.05 each	27,471	27,471

The Company has only one class of shares: ordinary shares of $0.05 each, with each share carrying one vote, without restriction. The holders of ordinary shares are entitled to receive dividends as and when declared by the Company and subsequently approved by the shareholders.

3. SHARE CAPITAL (continued)

The Company has an employee share option plan under which options to subscribe for the Company's ordinary shares have been granted to employees of the Group. More details are given in Note 21a.

In 2014, the Company shares were issued in consideration of the acquisition of the non-controlling interest of Medtecs (Taiwan) Corporation (MTC). The excess of the consideration over the fair value of the net assets acquired was recorded in "Other reserves" under the equity section of the balance sheet.

4. EMPLOYEE SHARE OPTION RESERVE

The employee share option reserve represents the equity-settled share options granted to employees (Note 21a). The reserve is made up of cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share option, and is reduced by the equity or exercise of the share options.

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
As at 1 January	294	294	294	294
Equity-settled share options - value of employees' service	–	–	–	–
As at 31 December	294	294	294	294

5. REVENUE AND OTHER RESERVES

a) Revenue reserves/(deficit)

	Group	
	2019 $'000	2018 $'000
Revenue reserves are retained by:		
Company	(8,318)	(9,000)
Subsidiaries	39,065	38,585
	30,747	29,585

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5. REVENUE AND OTHER RESERVES (CONTINUED)

b) Foreign currency translation reserves

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

	Group	
	2019 $'000	2018 $'000
At 1 January	(88)	587
Net effect of exchange differences arising from translation of financial statements of foreign operations	319	(675)
At 31 December	231	(88)

c) Equity component of convertible bonds

The equity component of convertible bonds is a capital reserve representing the conversion rights of convertible bonds. If the conversion is not exercised and lapses or the convertible bonds are repaid or returned, the equity component remains in equity. The convertible bonds have already been redeemed.

Equity component of convertible bonds of the Group and of the Company amounted to $267,000 as at 31 December 2019 (2018: $267,000).

6. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold buildings and improvements $'000	Machinery, equipment and others $'000	Furniture, fixtures and equipment $'000	Leasehold improvements $'000	Transportation equipment $'000	Total $'000
Cost:						
As at 1 January 2018	23,782	36,384	3,094	4,290	1,357	68,907
Additions	73	1,471	70	–	1	1,615
Disposals	(56)	(1,216)	–	–	(200)	(1,472)
Reclassification	576	(576)	–	–	–	–
Translation adjustments	(55)	(135)	(48)	(2)	(19)	(259)
As at 31 December 2018 and 1 January 2019	24,320	35,928	3,116	4,288	1,139	68,791
Additions	89	1,497	298	10	58	1,952
Disposals	(202)	(4,131)	(505)	(50)	(85)	(4,973)
Reclassification	(2,078)	(200)	(71)	114	(77)	(2,312)
Translation adjustments	(505)	289	(13)	14	3	(212)
As at 31 December 2019	21,624	33,383	2,825	4,376	1,038	63,246
Accumulated depreciation:						
As at 1 January 2018	8,385	29,826	2,556	3,778	952	45,497
Depreciation charge for the year	654	1,348	69	148	46	2,265
Disposals	(3)	(119)	–	–	(190)	(312)
Reclassification	291	(291)	–	–	–	–
Translation adjustments	(110)	(62)	(41)	–	(46)	(259)
As at 31 December 2018 and 1 January 2019	9,217	30,702	2,584	3,926	762	47,191
Depreciation charge for the year	555	1,370	92	124	40	2,181
Disposals	(28)	(3,975)	(505)	(50)	(67)	(4,625)
Reclassification	175	(172)	(102)	(23)	(77)	(199)
Translation adjustments	(306)	(156)	9	–	(19)	(472)
As at 31 December 2019	9,613	27,769	2,078	3,977	639	44,076
Net carrying amount:						
As at 31 December 2018	15,103	5,226	532	362	377	21,600
As at 31 December 2019	12,011	5,614	747	399	399	19,170

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6. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Leasehold buildings and improvements $'000	Machinery, furniture, fixtures and equipment $'000	Leasehold improvements $'000	Transportation equipment $'000	Total $'000
Cost:					
As at 1 January 2018	227	3,433	10	73	3,743
Additions	2	5	–	–	7
Disposals	–	–	–	(23)	(23)
As at 31 December 2018	229	3,438	10	50	3,727
Additions	–	19	–	–	19
Disposals	–	–	–	–	–
As at 31 December 2019	229	3,457	10	50	3,746
Accumulated depreciation:					
depreciation:					
As at 1 January 2018	199	3,421	5	57	3,682
Depreciation charge for the year	12	5	1	6	24
Disposals	–	–	–	(23)	(23)
As at 31 December 2018 and 1 January 2019	211	3,426	6	40	3,683
Depreciation charge for the year	5	8	1	6	20
Disposals	–	–	–	–	–
As at 31 December 2019	216	3,434	7	46	3,703
Net carrying amount:					
As at 31 December 2018	18	12	4	10	44
As at 31 December 2019	13	23	3	4	43

As of 31 December 2019, there were property, plant and equipment that were mortgaged to secure various loans as mentioned in Note 18.

Carrying amount of idle property, plant and equipment from non-operating subsidiaries amounted to $1,050,000 (2018: $1,313,000)

The Group continues to utilize fully depreciated property and equipment with an aggregate acquisition cost amounting to $25.5 million and $25.3 million as of 31 December 2019 and 2018, respectively.

7. INVESTMENT PROPERTIES

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Cost:				
As at 1 January and 31 December	7,705	7,705	2,253	2,253
Accumulated depreciation:				
As at 1 January	4,644	4,480	2,253	2,200
Disposals	–	–	–	–
Depreciation charge for the year	111	164	–	53
As at 31 December	4,755	4,644	2,253	2,253
Net carrying amount as at 31 December	2,950	3,061	–	–
Profit and loss account:				
Rental income (Note 29)	615	171	–	–
Direct operating expenses	(111)	(45)	–	–
	504	126	–	–

The Group and Company's investment properties include building and building improvements that are mainly held to earn rentals and capital appreciation. The Group and Company have no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. A valuation of the fair value of the investment properties was performed by an independent appraiser. Aggregate fair value of the investment properties was determined using the cost approach which considers the cost to reproduce or replace the property appraised with new assets. As of 31 December 2019, there is no change in the valuation technique used in measuring the fair value of the investment properties. As of March 2019, fair market value of the investment properties, which is based on its highest and best use, amounted to $7.1 million. The fair value is categorized under Level 2 (valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable) fair value hierarchy.

8. ASSETS HELD FOR LEASING

	Group	
	2019 $'000	2018 $'000
Cost:		
As at 1 January	9,575	8,086
Additions	2,620	3,694
Disposals	(2,181)	(2,205)
As at 31 December	10,014	9,575
Accumulated depreciation:		
As at 1 January	3,258	2,938
Amortisation charge for the year	2,832	2,525
Disposals	(2,163)	(2,205)
As at 31 December	3,927	3,258
Net carrying amount as at 31 December	6,087	6,317

In 2019, fully amortised linens amounting to $2.2 million (2018: $2.2 million) was derecognised.

9. INVESTMENT IN SUBSIDIARIES

(a) Investment in subsidiaries comprise:

	Company	
	2019 $'000	2018 $'000
Unquoted equity shares, at cost	24,899	24,899
Allowance for impairment on investment	(16)	(16)
	24,883	24,883

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9. INVESTMENT IN SUBSIDIARIES (continued)

(b) The Company had the following subsidiaries as at 31 December:

Name	Principal activities	Country of incorporation and place of business	Percentage of equity held by the Company		Cost of investment by the Company	
			2019 %	2018 %	2019 $'000	2018 $'000
Held by the Company						
Universal Weavers Corporation (UWC)	Manufacturing and trading of woven and knitted fabrics	Philippines	100.0	100.0	5,863[(d)]	5,863[(d)]
Contex Corporation (CC)	Trading of hospital textiles and garments, pillow cases, bed sheets, gowns and apparel, and subleasing activities	Philippines	98.8[(a)]	98.8[(a)]	1,854	1,854
Medtecs (Taiwan) Corporation (MTC)	Manufacturing, leasing, marketing and distribution of medical consumables and provision of hospital laundry services	Republic of China	100.0[(b)]	100.0[(b)]	7,569[(d)]	7,569[(d)]
Medtex Corporation	Manufacturing and sale of elastic bandages, garters and other garment products	Philippines	100.0	100.0	474[(d)]	474[(d)]
Medtecs (Cambodia) Corporation Limited (MCCL)	Manufacturing of medical consumables and provision of procurement services	Cambodia	100.0	100.0	2,038[(d)]	2,038[(d)]
Medtecs (Asia Pacific) Pte. Ltd.	Sale of woven and knitted fabrics and other made-up articles of textile products	Singapore	100.0	100.0	1,241[(e)]	1,241[(e)]
Medtecs Materials Technology Corporation (MMTC)	Manufacturing, leasing and trading of woven and knitted fabrics, other made-up articles of textile, medical and healthcare related products, and provision of hospital laundry services	Philippines	100.0	100.0	2,021	2,021

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9. INVESTMENT IN SUBSIDIARIES (continued)

Name	Principal activities	Country of incorporation and place of business	Percentage of equity held by the Company		Cost of investment by the Company	
			2019	2018	2019	2018
			%	%	$'000	$'000
Medtecs (Far East) Limited	Sale of woven and knitted fabrics and other made-up articles of textile products	Hong Kong Special Administrative Region	100.0	100.0	1	1
Cooper Development Limited	Investment holding	Malaysia	100.0	100.0	3,822[d]	3,822[d]
Held through subsidiaries						
Hangzhou Jinchen Medical Supplies Manufacture Co., Ltd. (Jinchen)	Manufacturing and trading of woven and non-woven medical consumables	People's Republic of China	100.0	100.0	–	–
Zibo Lianheng Textiles Co., Ltd. (Lianheng)	Manufacturing and trading of woven fabrics	People's Republic of China	51.1[c]	51.1[c]	–	–
Zibo Liancheng Textiles & Garments Co. Ltd.	Manufacturing and trading of woven fabrics	People's Republic of China	100.0	100.0	–	–
Medtecs MSEZ Corp., Ltd. (MSEZ)	Manufacturing of woven and non-woven fabric	Cambodia	100.0 [f]	100.0 [f]	–	–
					24,883	24,883

[a] Certain shares are held by non-controlling interests which are equivalent to 1.2% of the total paid-up capital.
[b] Certain shares held by non-controlling interests which are equivalent to 7.6% of the total paid-up capital were acquired by the Company in 2014.
[c] Certain shares are held by non-controlling interests which are equivalent to 48.9% of the total paid up capital.
[d] Includes equity-settled share options granted to employees of the subsidiaries which were regarded as capital contribution to the subsidiaries.
[e] Includes allowance for impairment of $16,000 as this subsidiary had been previously making losses.
[f] A wholly owned subsidiary of MTC incorporated on 29 June 2016.

The following summarised financial information for the subsidiaries with non-controlling interests are prepared in accordance with SFRS(I), modified for fair value adjustments on acquisition and differences in the Group's accounting policies.

	CC		**Lianheng**		**Intra-group elimination**		**Total**	
	2019	2018	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Non-current assets	3,265	3,383	954	2,498				
Current assets	4,618	4,520	2,498	1,193				
Non-current liabilities	(103)	(114)	–	–				
Current liabilities	(3,021)	(3,333)	(1,430)	(1,430)				
Net assets	4,759	4,456	2,022	2,261				
Net assets attributable to NCI	57	53	989	1,106	(26)	(143)	1,020	1,016

10. GOODWILL

	Group	
	2019 $'000	2018 $'000
As at 1 January	709	709
Net exchange difference	–	–
As at 31 December	709	709

Goodwill acquired through business combinations has been allocated to the cash-generating units, which are also the reportable operating segments, for impairment testing as follows:

	2019 $'000	2018 $'000
Manufacturing	198	198
Hospital services	511	511
	709	709

The Group tests goodwill annually for impairment or more frequently if there are indicators that goodwill might be impaired.

The recoverable amounts of the cash-generating units are determined based on the value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections in 2019 for manufacturing segment is 10.86% (2018: 14.35%) and for the hospital services segment is 6.80% (2018: 6.03%) and the forecasted growth rates used to extrapolate cash flows beyond the five-year period in 2019 is 10% (2018: 10%) for manufacturing segment and 5% (2018: 5%) for hospital services which are based on management's reasonable estimates of the Group's manufacturing and hospital services operations given its existing business model and expansion of its distribution channel in China and Taiwan.

The following describes management's key assumptions on the cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins

Gross margins are based on a mix of historical margins and expected rates improvements based on management's growth strategies. These are increased over the budget period for anticipated efficiency improvements.

Growth rates

The forecasted growth rates are based on management's estimate of the long-term average growth relevant to the cash-generating unit.

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10. GOODWILL (continued)

Market share assumptions

Market share assumptions are important because management assesses how the cash-generating unit's position relative to its competitors might change over the budget period. Management expects the Group's market share to be stable over the budget period.

Pre-tax discount rates

Discount rates reflect management's estimate of the risks specific to each cash-generating unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each cash-generating unit, reference has been given to the specific circumstances of the cash-generating units and derived from their weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Risk specific to the cash-generating unit is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

With regards to the assessment of value in use of cash generating units to which the assets are allocated, management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying value of the unit to materiality exceed its recoverable amount.

11. DUE FROM/(TO) SUBSIDIARIES (TRADE)

The current balances of amounts due from/(to) subsidiaries are unsecured, non-interest bearing and are payable upon demand.

12. OTHER NON-CURRENT ASSETS

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Deposits	5,617	5,121	3,025	3,028
Guarantee deposit (Note 18)	750	750	750	750
Long-term prepaid rent	–	522	–	–
Others	567	351	21	22
	6,934	6,744	3,796	3,800

Guarantee deposit pertains to the non-current portion of fixed deposit in Taiwan Cooperative Bank which serves as collateral to the loan from the same bank amounting to $5,000,000 (Note 18).

13. INVENTORIES

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
At cost:				
Raw materials	10,943	7,058	12	12
Work-in-progress	6,589	7,003	13	11
Supplies and spare parts	4,932	4,097	1	1
Goods-in-transit	908	349	–	–
At net realizable value:				
Finished goods	14,472	15,343	52	53
Total inventories	37,844	33,850	78	77

The Group recognised provision for inventory obsolescence in the profit and loss accounts in 2019 amounting to $246,000 (2018: $450,000).

Allowance for inventory obsolescence of the Group for the year ended 31 December 2019 is $2.3 million (2018: $2.1 million). Allowance for inventory obsolescence of the Company for the year ended 31 December 2019 is nil (2018: nil).

The Group's inventories charged to operations in 2019 were $27.4 million (2018: $28.2 million) (Note 24).

Under the terms of the agreements covering liabilities under trust receipts, certain merchandise have been released to the subsidiaries, in trust for the banks. The subsidiaries are accountable to the banks for the trusteed merchandise or its sales proceeds in 2019 amounting to nil (2018: nil) (Note 18).

14. TRADE RECEIVABLES

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Trade receivables				
Manufacturing	10,837	11,608	5,749	7,034
Hospital services	1,352	2,021	–	–
Trading	1,384	1,323	–	–
Less: Allowance for impairment	(229)	(225)	–	–
	13,344	14,727	5,749	7,034

Trade receivables are non-interest bearing and are generally on 1 to 11 months' term. They are recognised at their original invoice amounts, which represent fair values on initial recognition.

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14. TRADE RECEIVABLES (continued)

Trade receivables denominated in foreign currencies at 31 December are as follows:

	Group	
	2019 $'000	2018 $'000
Philippine peso	524	869
Renminbi	261	192
New Taiwan dollar	2,333	3,021
Singapore dollar	464	411

Receivables that are past due but not impaired

The Group has trade receivables amounting to $4.3 million (2018: $0.9 million) that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their aging at end of the reporting period is as follows:

	Group	
	2019 $'000	2018 $'000
Less than 1 month	806	143
1 to 2 months	3,452	778
Total	4,258	921

Receivables that are impaired

The Group's trade receivables that are impaired at the end of the reporting period are as follows:

	Group			
	Collectively impaired		*Individually impaired*	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Trade receivables - nominal amounts:				
Manufacturing	26	26	324	747
Hospital services	983	1,732	–	–
Trading	1,384	1,321	–	–
Less: Allowance for impairment	(60)	(58)	(169)	(167)
	2,333	3,021	155	580

14. TRADE RECEIVABLES (continued)

Receivables that are neither past due nor impaired

As at 31 December 2019, trade receivables amounting to $6.6 million (2018: $10.2 million) are neither past due nor impaired. These receivables are considered to be of good quality since they are collectible without incurring any credit losses.

Expected credit losses

The movement in allowance for expected credit losses of trade receivables computed based on lifetime ECL is as follows:

	2019 $'000	2018 $'000
As at 1 January	225	127
Charge for the year	–	100
Written off	–	–
Exchange differences	4	(2)
As at 31 December	229	225

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15. OTHER CURRENT ASSETS

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Advances to suppliers	10,718	11,531	9,734	10,761
Prepayments	285	148	32	105
Advances to employees	36	12	9	6
Input taxes	264	329	–	–
Deposits	2,200	3,687	2,198	4,229
Sundry receivables	2,600	1,381	376	376
	16,103	17,088	12,349	15,477

Deposits include payment to suppliers for future deliveries of inventories that are to be liquidated within a year.

Sundry receivables include rent receivables and claims from third parties.

Other current assets denominated in foreign currencies at 31 December are as follows:

	Group	
	2019	2018
	$'000	$'000
Renminbi	392	461
Philippine peso	646	648
New Taiwan dollar	917	910
Singapore Dollar	–	–

16. CASH AND BANK BALANCES AND FIXED DEPOSITS

Fixed deposits of the Group and of the Company, amounting to $4.9 million (2018: $4.3 million) and nil (2018: $250,000) respectively, are pledged in connection with credit facilities granted by banks. In addition, the withdrawal of such fixed deposits is subject to the banks' approval in connection with overdraft facilities. The fixed deposits are denominated in US$ and earn annual interest of 0.9% (2018: 0.9%).

Cash and bank balances and fixed deposits denominated in foreign currencies at 31 December are as follows:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
New Taiwan dollar	6,855	7,070	–	–
Philippine peso	231	340	20	23
Renminbi	116	176	–	–
Singapore dollar	26	31	20	16
Riel	2	27	–	–

Interest income earned by the Group and Company from cash in bank and fixed deposits amounted to $209,000 (2018: $111,000) and $1,000 (2018: $1,000), respectively.

17. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Trade payables	948	2,892	87	75
Other creditors	721	1,340	127	420
Accrued operating expenses	2,120	2,522	77	191
Amounts due to directors (Note 28)	47	47	44	44
	3,836	6,801	335	730

Amounts due to directors are non-trade related, unsecured, non-interest bearing and are payable on demand.

Trade payables and other current liabilities denominated in foreign currencies at 31 December are as follows:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
New Taiwan dollar	828	845	–	–
Renminbi	24	66	–	–
Philippine peso	1,370	1,309	81	269

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18. LOANS AND BORROWINGS

	Weighted average effective interest rate (p.a.)	Maturity	Group 2019 $'000	Group 2018 $'000	Company 2019 $'000	Company 2018 $'000
Current:						
Trust receipts and acceptances payable (secured) (Note 13)	0%	2019	–	–	–	–
Bank loans:						
- US$ loans						
Secured (Note 6)	4.46%	2020	459	2,340	–	–
Unsecured	3.68%	2020	11,913	11,756	–	–
- Renminbi (RMB) loans						
Secured (Note 6)	6.71%	2020	1,765	2,017	–	–
- New Taiwan Dollar (NTD) loans						
Unsecured	2.99%	2020	22,142	16,603	–	–
Total short-term bank loans			36,279	32,716	–	–
Term loans (current portion)			387	2,185	–	1,250

	Weighted average effective interest rate (p.a.)	Maturity	Group 2019 $'000	Group 2018 $'000	Company 2019 $'000	Company 2018 $'000
Non-current:						
Term loans:						
- Long-term loan (secured) (Note 6)	3.3%	2019-2022	3,750	5,000	3,750	5,000
- Long-term loan (secured) (Note 6)	8.5%	2019-2024	617	487	–	–
- NTD term loans						
Unsecured	3.4%	2019-2020	1,890	2,611		–
Total long-term bank loans			6,257	8,098	3,750	5,000
Due within one year			(387)	(2,185)	–	(1,250)
Due after one year			5,870	5,913	3,750	3,750
Total loans and borrowings			42,536	40,814	3,750	5,000

18. LOANS AND BORROWINGS (continued)

The above borrowings are classified as follows:

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Secured	6,591	9,844	3,750	5,000
Unsecured	35,945	30,970	–	–
	42,536	40,814	3,750	5,000

Property, plant and equipment, inventories and fixed deposits with a carrying amount of $6.2 million (2018: $6.6 million) (Notes 6, 13 and 16) are used to secure the loans of the Group and Company amounting to $6.6 million (2018: $9.8 million) and $3.8 million (2018: $5 million), respectively.

Trust receipts and acceptances payable
The trust receipts and acceptances payable are at fixed and floating rates, secured by a pledge of certain merchandise (Note 13), which is kept in trust for the bank and are payable at various dates in the succeeding year (Note 32).

Long-term loans
The term loans from Cathay United Bank are payable in monthly installment with effective rate of 8.5% and are secured by buildings and leasehold amounting to $3.2 million. Term loans from Taiwan Cooperative Bank are payable in quarterly installment starting 2020 with effective rate of 2.25% plus LIBOR rate per annum. This is guaranteed by a fixed deposit amounting to 20% of the loan (Note 12 and 16).

A reconciliation of liabilities arising from financing activities is as follows:

			Non-cash changes	
	December 31, 2018	Net cash flows	Other	December 31, 2019
	$'000	$'000	$'000	$'000
Term loans				
- current	2,185	(7,711)	5,913	387
- noncurrent	5,913	5,870	(5,913)	5,870
Bank loans	32,716	3,563	–	36,279
Total	40,814	1,722	–	42,536

			Non-cash changes	
	December 31, 2017	Net cash flows	Other	December 31, 2018
	$'000	$'000	$'000	$'000
Term loans				
- current	1,039	(488)	1,634	2,185
- noncurrent	1,634	5,913	(1,634)	5,913
Bank loans	32,809	(93)	–	32,716
Total	35,482	5,332	–	40,814

The 'other' column relates to reclassification of non-current portion of loans and borrowings due to passage of time.

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19. REVENUE

Disaggregation of revenue

Group	Manufacturing		Hospital Services		Distribution and Others	
	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000
Primary geographical markets						
United States of America (USA)	7,743	7,825	–	–	–	–
Asia Pacific	12,360	12,373	14,271	13,965	1,803	2,130
Europe	32,729	32,007	–	–	–	–
Canada	71	4	–	–	–	–
	52,903	52,209	14,271	13,965	1,803	2,130
Revenue from contracts						
Revenue from OPM	52,903	52,209	–	–	–	–
Revenue from hospital services	–	–	14,271	13,965	–	–
Revenue from distribution	–	–	–	–	1,803	2,130
	52,903	52,209	14,271	13,965	1,803	2,130
Timing of transfer of goods or services						
At a point in time	52,903	52,209	–	–	1,803	2,130
Over time	–	–	14,271	13,965	–	–
	52,903	52,209	14,271	13,965	1,803	2,130

In addition to the above revenue, Contex Corporation earned rental revenue for the financial year ended 31 December 2019 amounting to $615,257 (2018: $171,098) (Note 29).

Revenues from one customer of the Group's Manufacturing segment represents approximately $19,478,000 of the Group's total revenues.

20. OTHER INCOME - NET

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Foreign exchange gain (loss)	241	240	(11)	11
Gain on disposals	8	29	–	6
Others	510	180	250	109
	759	449	239	126

Others include miscellaneous income and other operating income.

21. EMPLOYEE BENEFITS

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Personnel expenses				
Wages and salaries	25,408	24,657	1,100	1,079
Pension expense	95	82	21	23
	25,503	24,739	1,121	1,102

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Personnel expenses				
Cost of sales	22,501	21,642	355	335
General and administrative expenses	3,002	3,097	766	767
	25,503	24,739	1,121	1,102

a) Employee share option plans

i) Non-executive director option plans

Share options are granted to non-executive directors of the Group. The exercise price of the option is equal to the market price of the shares at the date of grant. The exercise period of the options with exercise price at market price commences on the first anniversary of the grant, while the exercise period for options with exercise price at a discount to the market price commences on the second anniversary of the date of the grant. Options granted to non-executive directors expire on the fifth anniversary of the date of grant. There are no cash settlement alternatives.

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21. EMPLOYEE BENEFITS (continued)

ii) General employees share option scheme

The Company has a share options scheme for the granting of non-transferable options to confirmed full-time employees as well as executive directors of the Company (other than Clement Yang Ker-Cheng) who are not controlling shareholders and their associates. The exercise period of the options with exercise price at market commences on the first anniversary of the date of the grant while the exercise period for options with exercise price at a discount to the market price commences on the second anniversary of the date of the grant. Options granted to executive directors and employees expire on the tenth anniversary of the date of grant.

No employee has received 5.0% or more of the total options available under the Medtecs Share Option Scheme ("the Scheme").

Movement of share options during the financial year

Information with respect to the number of options granted under the Scheme is as follows:

	Number of options 2019 '000	Weighted average exercise price 2019 S$	Number of options 2018 '000	Weighted average exercise price 2018 S$
Outstanding at 1 January and 31 December	2,030	0.09	2,030	0.09

There are no options granted in 2019 and 2018.

The exercise price for options outstanding at the end of the year was S$0.094 (2018: S$0.094), the weighted average remaining contractual life of these options is 0.4 years (2018: 1.4 years).

Fair value of share options granted

The fair value of equity-settled share options granted is estimated as of the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used are shown below:

	2010	Prior to 2010
Dividend yield (%)	–	4.0
Expected volatility (%)	29.4	40.0
Historical volatility (%)	29.4	40.0
Risk-free interest rate (%)	2.3	4.0
Expected life of option (years)	4.3	4.8
Weighted average share price (S$)	0.1	0.1

The expected life of the share option is based on historical data and is not necessarily indicative of exercise patterns that may occur. The volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not be necessarily the actual outcome. No other features of the option grant were incorporated into the measurement of fair value.

21. EMPLOYEE BENEFITS (continued)

b) Pension plan

This relates to the amount of pension benefit expense provided for the subsidiaries and the branch in the Group operating in the Philippines covering substantially all its regular employees. Retirement benefits under the plan are based on a percentage of latest monthly salary and years of credited service. The directors review the pension benefits expense with sufficient regularity such that the amount recorded does not differ materially from the amount to be recorded in compliance with SFRS(I) 19 at the end of the year.

Under the existing regulatory framework, Republic Act 7641 of the Philippines, Retirement Pay Law, a provision for retirement pay is required to qualified private sector employees in the absence of any retirement plan in the entity, provided however, that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The latest independent actuarial valuation of the plan was as of December 31, 2019, prepared by an independent actuary, and is determined using the projected unit credit actuarial cost method in accordance with SFRS(I) 19.

The components of the pension benefit expense recognised in the profit and loss accounts are as follows:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Current service cost	51	43	11	13
Interest cost	44	39	10	10
Net benefit expense	95	82	21	23

The amount recognised in the balance sheet arising from the Group's and the Company's unfunded obligation in respect of its defined benefit plan in 2019 were $927,000 (2018: $585,000) and $225,000 (2018: $133,000), respectively. The management of the Group is still contemplating on a scheme to fund the pension plan.

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21. EMPLOYEE BENEFITS (continued)

b) Pension plan (continued)

Changes in the present value of the unfunded defined benefit obligations are as follows:

	Unfunded pension plan			
	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
As at 1 January	585	721	133	183
Current service cost	51	43	11	13
Interest cost	44	39	10	10
Benefits paid	(19)	(7)	(5)	–
Translation adjustment	23	(35)	6	(10)
Net remeasurement loss (gain)	243	(176)	70	(63)
As at 31 December	927	585	225	133

The principal actuarial assumptions as at 31 December used to determine pension benefits are as follows:

	Group		Company	
	2019	2018	2019	2018
Discount rate	4.87% - 4.99%	7.30% - 7.37%	4.98%	7.36%
Salary increase rate	5.0%	5.0%	5.0%	5.0%

The history of experience adjustments are as follows:

	Group				
	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Unfunded defined benefit obligation	927	585	721	727	729
Change in assumption adjustments on plan liabilities	133	(150)	(61)	(3)	(53)
Experience adjustments on plan liabilities	110	(26)	(26)	(40)	(68)
Change in demographic assumption	–	–	–	–	8

	Company				
	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Unfunded defined benefit obligation	225	133	183	175	157
Change in assumption adjustments on plan liabilities	53	(33)	(11)	–	(14)
Experience adjustments on plan liabilities	17	(30)	(3)	6	(28)
Change in demographic assumption	–	–	–	–	1

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21. EMPLOYEE BENEFITS (continued)

b) Pension plan (continued)

A quantitative sensitivity analysis for significant assumption as at 31 December 2019 is as shown below:

Assumptions	Sensitivity Level	Impact on defined benefit obligation Increase (Decrease)
Discount rates	+0.5%	(60)
	-0.5%	66
Future salary increases	+2%	286
	-2%	(208)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The following payments are expected contributions to the defined benefit plan obligation in future years as at 31 December 2019:

	$'000
Within the next 12 months (next annual reporting period)	77
More than 1 year to 5 years	94
More than 5 years to 10 years	334
More than 10 years to 15 years	1,140
More than 15 years to 20 years	2,121
More than 20 years	5,266
	9,032

The average duration of the defined benefit plan obligation at the end of the reporting period is 19.75 years.

The Labor Pension Act (the "Act") in Taiwan, which provides for a new defined contribution plan, took effect on 1 July 2005. Employees already covered by the Labor Standard Law (the "Law") can choose to remain to be subject to the pension mechanism under the Law or to be subject to the Act. Under the Act, the rate of the employer monthly contribution to the pension fund should be at least 6% of the employee's monthly wages.

As at 31 December 2019, the Group has pension benefit expense under defined contribution plan amounting to US$95,000 (2018: US$82,000).

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22. FINANCIAL INCOME

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Interest income from:				
- fixed deposits and advances to third parties	209	111	1	1

23. FINANCIAL EXPENSES

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Interest expense on:				
- Loans to third parties	2,004	1,797	957	809
- Lease liabilities (Note 29)	283	–	33	–
Other finance costs	199	201	2	3
Total financial expenses	2,486	1,998	992	812

Other finance costs include bank charges for loans, trust receipts, transfers of funds, payments and collections, and other related costs.

24. PROFIT/(LOSS) BEFORE TAX

The following items have been included in arriving at profit/(loss) before tax:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Inventories recognised as an expense in cost of sales (Note 13)	27,428	28,245	8,852	10,612
Personnel expenses (Note 21)	25,503	24,739	1,121	1,102
Depreciation and amortization (Notes 6 and 7)	2,292	2,429	20	77
Financial expenses (Note 23)	2,486	1,998	992	812
Amortisation of assets held for leasing (Note 8)	2,832	2,525	–	–
Amortization of right-of-use assets (Note 29)	687	–	42	–
Operating lease expenses (Note 29)	190	806	10	58
Auditor remuneration:				
- auditor of the Company, audit services	133	140	41	41
Financial income (Note 22)	(209)	(111)	(1)	(1)
Other income - net (Note 20)	(759)	(449)	(239)	(126)

25. TAXATION

a) Major components of income tax expense

The major components of income tax expense for the years ended 31 December are:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Current	348	270	–	–
Deferred income tax:				
Origination and reversal of temporary differences	3	2	–	2
Income tax expense recognised in the profit and loss accounts	351	272	–	2

b) Relationship between tax expense and accounting profit

The reconciliation between the tax expense/(benefit) and the product of accounting profit/(loss) multiplied by the applicable corporate tax rates for the years ended 31 December 2019 and 2018 are as follows:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Profit/(loss) before tax	1,517	1,186	(587)	(268)
Tax on relevant profits/(losses) at the domestic statutory rates applicable in the countries concerned	136	13	(26)	(14)
Adjustments:				
Non-deductible expenses	99	68	20	20
Movement of unrecognized deferred tax assets	183	178	(3)	(12)
Translation adjustment	(79)	3	(1)	1
Others	12	10	10	7
Income tax expense recognised in profit and loss accounts	351	272	–	2

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25. TAXATION (continued)

c) Deferred tax assets and liabilities

Deferred tax assets for the Group and the Company as at 31 December relate to the following:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Accruals	7	8	7	8
Translation adjustments	2	(1)	–	(1)
Unrealised loss/(gain) on exchange differences		–	–	–
Rent levelization	–	6	–	6
Lease Liability	12	–	7	–
	21	13	14	13

As at 31 December 2019, the Group's and the Company's deferred tax liabilities, which arise from exchange differences, amounted to $213,000 (2018: $202,000) and nil (2018: nil), respectively.

As at 31 December 2019 and 2018, no deferred tax assets were recognised for the temporary differences arising from a subsidiary's tax losses amounting to $2.1 million (2018: $4.4 million) as it is not probable that sufficient taxable profit will be available against which the benefits of the deferred tax assets can be utilised.

As at 31 December 2019 and 2018, there were nil taxes that would be payable on the unremitted earnings of certain subsidiaries as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The potential income tax consequences are not practicably determinable.

d) Other matters

The Company is an exempted company incorporated in Bermuda and as such, the income and capital gains of the Company are not subjected to tax in Bermuda.

Certain subsidiaries and the branch of the Group operating in the Philippines were previously registered as economic zone enterprises enjoying incentives such as a 5% special tax rate on gross margin earned after the tax holiday in lieu of all Philippine national and local taxes, and tax and duty-free importation of raw materials, capital equipment, household and personal items for use solely within the economic zone area. In 2010, the economic zone was converted into a freeport zone by virtue of the Republic Act (RA) No. 9728. Under the new law, existing enterprises within the ecozone are eligible to register as freeport enterprises with option to avail of existing incentives under RA No. 7916. The subsidiaries and the branch registered with the freeport zone and availed of the existing incentives.

Based on the amendments to the Income Tax Act (ITA) announced on 7 February 2018, the Medtecs Taiwan Corporation's applicable corporate income tax rate for the year ended 31 December 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%. Aside from the said amendment, an alternative minimum tax is also imposed under ITA, a supplemental tax levied at a rate of 20% which is payable if the income tax payable determined pursuant to the Income Tax Law is higher than the minimum amount prescribed under the ITA.

25. TAXATION (continued)

In Cambodia, the tax on profit ("ToP") is the higher of 20% of taxable income or a minimum tax of 1% of total revenue.

There are no income tax consequences attaching to payment of dividends by the Company to its shareholders.

26. EARNINGS PER SHARE (EPS)

The following tables reflect the profit and loss accounts and share data used in the computation of basic and diluted EPS for the years ended 31 December:

	Group	
	2019 $'000	2018 $'000
Net profit attributable to ordinary equity holders of the Company used in the computation of basic and diluted EPS	1,162	914
	No. of shares '000	No. of shares '000
Weighted average number of ordinary shares applicable to		
- Basic earnings per share	549,411	549,411
- Effect of dilution of share options	–	–
Weighted average number of ordinary shares for diluted EPS	549,411	549,411

Earnings per share computation

The basic EPS amounts are calculated by dividing the Group's net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

In 2019 and 2018, there was no adjustment since the effects of the share options are anti-dilutive for the financial period presented.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

27. DIVIDENDS

The Company has not declared nor paid cash dividends during the year and the previous financial year.

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28. SIGNIFICANT RELATED PARTY TRANSACTIONS

a) Transactions with related parties

In addition to the related parties information disclosed elsewhere in the financial statements, the following are the significant transactions between the Group and related parties that took place at terms agreed between the parties during the financial year:

	Company	
	2019	2018
	$'000	$'000
Income:		
Sales to subsidiaries	12,589	13,425
Costs and expenses:		
Purchases from subsidiaries	10,605	10,636

The Group has provided a corporate guarantee to various banks for a $6.0 million loan (2018: $9.8 million) (Note 18) taken by subsidiaries.

b) Compensation of key management personnel

	Group	
	2019	2018
	$'000	$'000
Directors and executives' remuneration	168	183
Comprise amounts paid to:		
- directors of the Company	162	131
- directors of the Subsidiary	6	6

The remuneration of key management personnel are determined by the Remuneration Committee having regard to the performance of individuals and market trends.

At the end of the reporting period, nil (2018: nil) options were granted to directors and executives of the Company. During the year, nil (2018: nil) options granted to directors were lapsed.

There are no termination benefits or other long-term employee benefits granted to key management personnel in 2019 and 2018.

Amounts due to directors, which amounted to $47,000 (2018: $47,000), are non-interest bearing and are payable on demand (Note 17).

29. LEASES

Group as lessor

The Group leases its linens under its hospital services. The lease term for each hospital service contract is between one to five years renewable by agreement of the parties. The rate per hospital is based on their consumption and the future minimum lease is not practically determinable.

As at 31 December 2019, the Group entered into operating lease agreement in respect of a building and its improvements. Operating lease income recognised in the profit and loss accounts of the Group for the financial year ended 31 December 2019 is $615,257 (2018: $171,098). Security deposit to be refunded and/or to be applied to unpaid rent of the lessee upon termination of the lease as at 31 December 2019 amounted to $50,643 (2018: $46,209). The excess of the principal amount of the security deposit over its fair value, at the inception date of the operating lease, is presented as 'Deferred lease income'. Current and noncurrent portion of the deferred lease income as at 31 December 2019 amounted to $5,400 and $37,803, respectively.

Future minimum rental receivable under the operating lease at the end of the reporting period are as follows:

	Group	
	2019 $'000	2018 $'000
Not later than one year	591	608
Later than one year but not later than five years	2,486	2,430
Later than five years	2,515	2,886
	5,592	5,924

Group as lessee

The Group and the Company have entered into lease agreements in respect of land and building, with lease terms ranging from 2 to 50 years. The lease terms do not contain restrictions on the Group's activities concerning dividends, additional debts or further leasing.

The Group also has certain leases with lease terms of 12 months or less and with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

a) Right-of-use assets

	Group $'000	Company $'000
As at 1 January 2019	6,128	157
Amortization	(687)	(42)
As at 31 December 2019	5,441	115

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29. LEASES (continued)

Group as lessee (continued)

b) Lease liabilities

	2019	
	Group $'000	Company $'000
As at 1 January 2019	3,495	280
Accretion of interest (Note 23)	283	33
Payment of lease liabilities	(215)	(55)
As at 31 December 2019	3,563	258

The maturity analysis of lease liabilities is disclosed in Note 32.

c) Amounts recognised in profit or loss

	2019	
	Group $'000	Company $'000
Amortisation of right-of-use assets (Note 24)	687	42
Interest expense on lease liabilities (Note 23)	283	33
Short-term lease expenses (Note 24)	190	10
Total amount recognised in profit or loss	1,160	85

30. COMMITMENTS AND CONTINGENT LIABILITIES

a) Operating lease commitments - as lessee

As at 31 December 2018, the future minimum lease payables under non-cancellable operating leases contracted for but not recognised as liabilities, are as follows:

	Group $'000	Company $'000
Not later than one year	624	16
Later than one year but not later than five years	665	74
Later than five years	4,264	751
	5,553	841

Operating lease expense recognised in the profit and loss accounts of the Group and the Company for the financial year ended 31 December 2018 amounted to $806,000 and $10,000, respectively.

As disclosed in Note 2.2, the Group has adopted SFRS(I) 16 on 1 January 2019. These lease payments have been recognised as right-of-use assets and lease liabilities on the statement of financial position as at 31 December 2019, except for short-term and low-value leases.

30. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

b) Contingent liabilities

<u>*Contingencies*</u>

In the ordinary course of business, certain subsidiaries in the Group are exposed to litigations and claims with respect to matters such as labour and tax disputes/assessments. The Group has made provisions, where applicable, based on management estimates on the extent of the probable costs arising out of these contingencies. The estimate of the probable costs for the resolution of these claims/assessments has been developed by management in consultation with internal and external counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Although there can be no assurances, management believes, based on information currently available and professional legal advice, that the ultimate resolution of these legal proceedings/assessments would not likely have a material, adverse effect on the results of operations, financial position or liquidity of the Group. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these litigations and claims.

<u>*Guarantees*</u>

The Company has provided a corporate guarantee to various banks for a $6.6 million (2018: $9.8 million) loan (Note 18) taken by a subsidiary.

31. GROUP SEGMENTAL REPORTING

Reporting format

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Business segments

The *manufacturing segment* produces and sub-contracts a wide range of medical consumables, including patients' apparels, disposable surgical masks, boot covers and surgical gowns, underpads, adult diapers, crochet blankets, bed linens and medical bandages. These medical consumables are supplied to large medical multinational corporation distributors, pharmaceutical companies and hospital groups in the United States of America (USA) and Europe.

The *hospital services segment* provides laundry and leasing services to various hospitals that are outsourcing its non-critical functions.

The *distribution segment* is involved in the marketing of Medtecs-branded medical consumables to hospitals, pharmacies and other end users in Asia Pacific. The Group also leverages on its distribution network to market other branded medical supplies and equipment such as wheel chairs, syringes, nebulizers and blood pressure monitors.

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31. GROUP SEGMENTAL REPORTING (continued)

Geographical segments

The Group's geographical segments are based on the location of the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

Allocation basis and transfer pricing

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, income tax and deferred tax assets and liabilities, loans and borrowings and related expenses.

Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated upon consolidation.

(a) Business segments

The following table presents revenue, results and other information, assets, liabilities and other segment information regarding the Group's business segments for the years ended 31 December 2019 and 2018.

2019	Manufacturing $'000	Hospital services $'000	Distribution and others $'000	Group $'000
Revenue	52,903	14,271	1,803	68,977
Results	3,370	115	309	3,794
Financial expenses				(2,486)
Financial income				209
Income tax expense				(351)
Net profit for the year				1,166
Total assets	98,108	14,194	4,301	116,603
Total liabilities	50,951	828	234	52,013
Other segment information:				
Capital expenditure	1,952	–	–	1,952
Depreciation and amortization	2,979	2,832	–	5,811
Provision for inventory obsolescence	246	–	–	246
Other non-cash expenses - net	2,277	(8)	–	2,269

31. GROUP SEGMENTAL REPORTING (continued)

2018	Manufacturing $'000	Hospital services $'000	Distribution and others $'000	Group $'000
Revenue	52,209	13,965	2,130	68,304
Results	2,563	376	134	3,073
Financial expenses				(1,998)
Financial income				111
Income tax expense				(272)
Net profit for the year				914
Total assets	94,429	14,074	4,387	112,890
Total liabilities	48,580	845	117	49,542
Other segment information:				
Capital expenditure	2,109	–	–	2,109
Depreciation and amortization	2,429	2,525	–	4,954
Provision for inventory obsolescence	450	–	–	450
Provision for impairment	–	–	150	150
Other non-cash expenses - net	1,887	23	–	1,910

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31. GROUP SEGMENTAL REPORTING (continued)

(b) Geographical segments

The following table presents revenue, capital expenditure and certain assets information regarding the Group's geographical segments as at and for the years ended 31 December 2019 and 2018.

2019	USA $'000	Asia Pacific $'000	Europe $'000	Canada $'000	Group $'000
Revenue	7,743	28,434	32,729	71	68,977
Results	426	1,564	1,800	4	3,794
Financial expenses					(2,486)
Financial income					209
Income tax expense					(351)
Net profit for the year					1,166
Total assets	1,140	112,572	2,891	–	116,603
Total liabilities	–	52,013	–	–	52,013
Other segment information:					
Capital expenditures	–	1,952	–	–	1,952
Depreciation and amortization	–	5,811	–	–	5,811
Provision for inventory obsolescence	–	246	–	–	246
Other non-cash expenses - net	–	2,269	–	–	2,269

31. GROUP SEGMENTAL REPORTING (continued)

(b) Geographical segments (continued)

2018	USA $'000	Asia Pacific $'000	Europe $'000	Canada $'000	Group $'000
Revenue	7,825	28,468	32,007	4	68,304
Results	352	1,281	1,440	–	3,073
Financial expenses					(1,998)
Financial income					111
Income tax expense					(272)
Net profit for the year					914
Total assets	785	110,245	1,860	–	112,890
Total liabilities	–	49,542	–	–	49,542
Other segment information:					
Capital expenditures	–	2,109	–	–	2,109
Depreciation and amortization	–	4,954	–	–	4,954
Provision for impairment	–	150	–	–	150
Provision for inventory obsolescence	–	450	–	–	450
Other non-cash expenses - net	–	1,910	–	–	1,910

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments are cash and bank balances, fixed deposits, bank loans and term loans. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as, trade receivables, trade payables, trust receipts and acceptances payable, due from an affiliated company and corporate shareholder, other current assets and other current liabilities, which arise directly from its operations.

It is, and has been throughout the current and previous year, the Group's policy that no trading in derivative financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risks (both fair value and cash flow), liquidity risk, foreign currency risk and credit risk. The directors review and agree policies and procedures for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivative financial instruments are set out in Note 2.13.

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in the market interest rates.

The Group's exposure to interest rate risk arises primarily from loans and borrowings. The Group's policy is to obtain the most favorable interest rates available using a mix of fixed and variable rate debts without increasing its foreign currency exposure.

Surplus funds are placed with reputable banks.

Information relating to the Group's interest rate exposure is also disclosed in the notes on the Group's loans and borrowings (Note 18).

As at 31 December 2019, approximately 13% (2018: 13%) of the Group's borrowings are at fixed rate of interest.

The following tables set out the carrying amounts, by maturity, of the Group's and the Company's financial instruments that are exposed to interest rate risk:

2019 **Group**	Within 1 Year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	Over 5 years $'000	Total $'000
Fixed rate						
Fixed deposits	4,930	–	–	–	–	4,930
Advances to suppliers	3,060	–	–	–	–	3,060
Bank loans	(4,902)	(207)	(99)	(68)	(42)	(5,318)
Floating rate						
Cash and bank balances	3,070	–	–	–	–	3,070
Bank loans	(34,718)	(1,250)	(1,250)	–	–	(37,218)

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

a) Interest rate risk (continued)

2019 Company	Within 1 Year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	Over 5 years $'000	Total $'000
Fixed rate						
Fixed deposits	–	–	–	–	–	–
Floating rate						
Cash and bank balances	46	–	–	–	–	46
Bank loans	(1,250)	(1,250)	(1,250)	–	–	(3,750)

2018 Group	Within 1 Year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	Over 5 years $'000	Total $'000
Fixed rate						
Fixed deposits	4,260	–	–	–	–	4,260
Advances to suppliers	3,059	–	–	–	–	3,059
Bank loans	(5,128)	(150)	(150)	(38)	–	(5,466)
Floating rate						
Cash and bank balances	4,521	–	–	–	–	4,521
Bank loans	(31,598)	(2,500)	(1,250)	–	–	(35,348)

2018 Company	Within 1 Year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	Over 5 years $'000	Total $'000
Fixed rate						
Fixed deposits	250	–	–	–	–	250
Floating rate						
Cash and bank balances	46	–	–	–	–	46
Bank loans	(1,250)	(2,500)	(1,250)	–	–	(5,000)

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

a) Interest rate risk (continued)

Sensitivity analysis for interest rate risk

The table below demonstrates the sensitivity to a reasonably possible change in interest rates based on management's assessment, with all other variables held constant, of the Group's profit before tax and of the Company's loss before tax (through the impact of interest expense on floating rate loans and borrowings) and the Group's and Company's equity.

	Group		Company	
	Increase/ (decrease) in basis points	Effect on profit before tax $'000	Increase/ (decrease) in basis points	Effect on loss before tax $'000
2019				
US$	23	(15)	23	(5)
RMB	23	(2)	–	–
NTD	23	(26)	–	–
US$	(23)	15	(23)	5
RMB	(23)	2	–	–
NTD	(23)	26	–	–
2018				
US$	29	(15)	29	(3)
RMB	29	(3)	–	–
NTD	29	(22)	–	–
US$	(29)	15	(29)	3
RMB	(29)	3	–	–
NTD	(29)	22	–	–

There is no other impact on the Group's and the Company's equity other than those already affecting income.

. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of financial assets and liabilities.

In the management of liquidity risk, the Group monitors and maintains a level of cash and bank balances deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings and debentures. Additional short-term funding is obtained from short-term bank loans. As at 31 December 2019, approximately 94.3% (2018: 95.5%) of the Group's debt will mature in less than one year.

The table summarises the maturity profile of the Group's and Company's financial assets and financial liabilities at the end of the reporting period based on contractual repayment obligations:

2019 **Group**	Total carrying value $'000	Total $'000	On demand $'000	< 1 year $'000	1 - 5 years $'000	> 5 years $'000
Undiscounted financial assets:						
Cash	3,070	3,070	3,070	–	–	–
Fixed deposits	4,930	4,930	–	4,930	–	–
Trade receivables - net	13,344	13,344	2,589	10,755	–	–
Other current assets	2,447	2,447	–	2,447	–	–
Total undiscounted financial assets	23,791	23,791	5,659	18,132	–	–
Undiscounted financial liabilities:						
Bank loans	36,279	37,436	–	37,436	–	–
Trade payables and other current liabilities	3,618	3,618	3,618	–	–	–
Lease liabilities	3,563	3,563	–	1,100	111	2,352
Term loans	6,257	6,517	–	4,017	2,500	–
Total undiscounted financial liabilities	49,717	51,134	3,618	42,553	2,611	2,352
Total net undiscounted financial (liabilities)/assets	(25,926)	(27,343)	2,041	(24,421)	(2,611)	(2,352)

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Liquidity risk (continued)

2019 Company	Total carrying value $'000	Total $'000	On demand $'000	< 1 year $'000	1 - 5 years $'000	> 5 years $'000
Undiscounted financial assets:						
Cash	46	46	46	–	–	–
Fixed deposits	–	–	–	–	–	–
Trade receivables	5,749	5,749	–	5,749	–	–
Other current assets	376	376	–	376	–	–
Due from subsidiaries (trade)	–	–	–	–	–	–
Total undiscounted financial assets	6,171	6,171	46	6,125	–	–
Undiscounted financial liabilities:						
Trade payables and other current liabilities	327	327	327	–	–	–
Term loans	3,750	3,750	–	1,250	2,500	–
Lease liabilities	258	258	–	26	13	219
Due to subsidiaries (trade)	18,045	18,045	18,045	–	–	–
Total undiscounted financial liabilities	22,380	22,380	18,372	1,276	2,513	219
Total net undiscounted financial liabilities	(16,209	(16,209)	(18,326)	4,849	(2,513)	(219)

NOTES TO THE FINANCIAL STATEMENTS (continued)
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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Liquidity risk (continued)

2018 Group	Total carrying value $'000	Total $'000	On demand $'000	< 1 year $'000	1 - 5 years $'000	> 5 $'000
Undiscounted financial assets:						
Cash	4,521	4,521	4,521	–	–	–
Fixed deposits	4,260	4,260	–	4,260	–	–
Trade receivables - net	14,727	14,727	1,667	13,060	–	–
Other current assets	1,263	1,263	–	1,263	–	–
Total undiscounted financial assets	24,771	24,771	6,188	18,583	–	–
Undiscounted financial liabilities:						
Bank loans	32,716	33,871	–	33,871	–	–
Trade payables and other current liabilities	5,936	5,936	5,936	–	–	–
Term loans	8,098	8,384	2,262	2,744	3,378	–
Total undiscounted financial liabilities	46,750	48,191	8,198	36,615	3,378	–
Total net undiscounted financial (liabilities)/assets	(21,979)	(23,420)	(2,010)	(18,032)	(3,378)	–

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Liquidity risk (continued)

2018 Company	Total carrying value $'000	Total $'000	On demand $'000	< 1 year $'000	1 - 5 years $'000	> 5 years $'000
Undiscounted financial assets:						
Cash	46	46	46	–	–	–
Fixed deposits	250	250	–	250	–	–
Trade receivables	7,034	7,034	744	6,290	–	–
Other current assets	376	376	–	376	–	–
Due from subsidiaries (trade)	34,676	34,676	34,676	–	–	–
Total undiscounted financial assets	42,382	42,382	35,466	6,916	–	–
Undiscounted financial liabilities:						
Trade payables and other current liabilities	718	718	718	–	–	–
Term loans	5,236	5,236	–	1,309	3,927	–
Due to subsidiaries (trade)	56,588	56,588	56,588	–	–	–
Total undiscounted financial liabilities	62,542	62,542	57,306	1,309	3,927	–
Total net undiscounted financial liabilities	(20,160)	(20,160)	(21,840)	5,607	(3,927)	–

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments. The maximum amount of the financial guarantee contracts is allocated to the earliest period in which the guarantee could be called.

	2019				2018			
	One year or less $'000	One to five years $'000	Over five years $'000	Total $'000	One year or less $'000	One to five years $'000	Over five years $'000	Total $'000
Financial guarantees	6,010	–	–	6,010	9,123	–	–	9,123

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

c) Foreign currency risk

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of the Group entities, primarily, Philippine Peso (PHP), Renminbi (RMB) and New Taiwan Dollar (NTD). The foreign currencies in which these transactions are denominated are mainly US$. Approximately 28% (2018: 29%) of the Group's sales are denominated in foreign currencies whilst almost 31% (2018: 31%) of costs are denominated in the respective functional currencies of the Group entities. The Group's trade receivables and trade payable balances at the end of the reporting period have similar exposures.

The Group and the Company also hold cash and fixed deposits denominated in foreign currencies for working capital purposes. At the end of the reporting period, such foreign currency balances are mainly in NTD.

The Group is also exposed to currency translation risk arising from its net investments in foreign operations, including Taiwan and People's Republic of China (PRC).

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's and the Company's profit/(loss) before tax to a reasonably possible change in the PHP, NTD and RMB exchange rates (against US$), with all other variables held constant. The reasonably possible change was computed based on management assessment.

	Group	
	2019 $'000	2018 $'000
	Effect on loss before tax	Effect on loss before tax
PHP		
Strengthened 3.7% (2018: 5.3%)	16	5
Weakened 3.7% (2018: 5.3%)	(17)	(4)
RMB		
Strengthened 0.3% (2018: 5.1%)	(4)	(84)
Weakened 0.3% (2018: 5.1%)	4	76
NTD		
Strengthened 2.0% (2018: 3.0%)	(176)	(156)
Weakened 2.0% (2018: 3.0%)	183	147

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

d) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations.

The Group’s objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and credit-worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Chief Executive Officer.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and bank balances and other receivables (including related party balances), the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Trade receivables
The Group provides for lifetime expected credit losses for all trade receivables using a provision matrix. The provision rates are determined based on the Group’s historical observed default rates analysed in accordance to months past due. The loss allowance provision as at 31 December 2019 is determined as follows, the expected credit losses below also incorporate forward looking information such as forecast of economic conditions. Summarised below is the information about the credit risk exposure on the Group’s trade receivables using provision matrix.

2019
Group

	Current $’000	> 1 month $’000	> 2 months $’000	> 3 months $’000	> 4 months $’000	Total $’000
Expected credit loss %	0.20%	0.62%	2.60%	9.52%	35.61%	
Gross carrying amount	7,833	1,185	465	377	3,713	13,573
Loss allowance provision	–	–	–	–	(229)	(229)
	7,833	1,185	465	377	3,484	13,344

Exposure to credit risk
At the end of the reporting period, the Group’s and the Company’s maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets and a nominal amount of $6.0 million (2018: $9.0 million) relating to a corporate guarantee provided by the Company to a bank on a subsidiary’s bank loan.

Information regarding credit enhancements for trade and other receivables is disclosed in Note 14.

NOTES TO THE FINANCIAL STATEMENTS (continued)
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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

d) Credit risk (continued)

Credit risk concentration profile

The Group determines concentration of credit risk by monitoring the country and industry sector profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at end of the reporting period is as follows:

	Group			
	2019		2018	
	$'000	% of total	$'000	% of total
By country:				
USA	1,140	9%	785	5%
Europe	2,891	21%	1,861	13%
Asia Pacific	9,290	70%	12,058	82%
Canada	23	0%	23	0%
	13,344	100%	14,727	100%
By segment:				
Manufacturing	10,641	80%	11,415	77%
Hospital services	1,352	10%	2,021	14%
Trading	1,351	10%	1,291	9%
	13,344	100%	14,727	100%

The Group has no significant concentrations of credit risk, except for 16% (2018: 12%) of trade debts relating to three major customers of the Group. Revenues from these three customers constitute about 42% (2018: 44%) of the Group's turnover.

At the end of the reporting period, approximately:

- $2.1 million (2018: $1.7 million) of the Group's trade receivables were due from three major customers located in the USA and Europe.
  - Nil (2018: nil) of the Group's trade and other receivables were due from related parties outside the Group, while nil (2018: nil) of the Company's trade and other receivables were balances with related parties outside the Group.

Credit quality

The credit quality of the Group's financial assets that are neither past due nor impaired are considered to be of high grade quality and expected to be collectible without incurring any credit losses. High grade financial assets are those financial assets whose realisability is assured.

Financial assets (including sundry debtors and deposits) that are neither past due nor impaired are due from creditworthy debtors with good payment record with the Group. Cash and bank balances and fixed deposits are entered into with reputable financial institutions duly approved by the directors.

Information regarding financial assets that are either past due or impaired is disclosed in Note 14.

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33. FINANCIAL INSTRUMENTS

a) Classification

2019 **Group**	Financial assets $'000	Non-financial assets $'000	Total $'000
Assets			
Cash and bank balances and fixed deposits	8,000	–	8,000
Trade receivables	13,344	–	13,344
Other current assets	2,447	13,656	16,103
Inventories	–	37,844	37,844
Property, plant and equipment	–	19,170	19,170
Investment property	–	2,950	2,950
Assets held for leasing	–	6,087	6,087
Goodwill	–	709	709
Deferred tax assets	–	21	21
Right-of-use assets	–	5,441	5,441
Other non-current assets	–	6,934	6,934
	23,791	92,812	116,603

2019 **Group**	Other financial liabilities $'000	Non-financial liabilities $'000	Total $'000
Liabilities			
Bank loans	36,279	–	36,279
Trade payables and other current liabilities	3,618	218	3,836
Trust receipts and acceptances payable	–	–	–
Income tax payable	–	900	900
Term loans	6,257	–	6,257
Pension benefits obligation	–	927	927
Deferred tax liabilities	–	213	213
Lease liabilities	3,563	-	3,563
Deferred lease income	–	38	38
	49,717	2,296	52,013

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33. FINANCIAL INSTRUMENTS (continued)

a) Classification (continued)

2019
Company

	Financial assets $'000	Non-financial assets $'000	Total $'000
Assets			
Cash and bank balances and fixed deposits	46	–	46
Trade receivables	5,749	–	5,749
Other current assets	376	11,973	12,349
Inventories	–	78	78
Due from subsidiaries (trade)	–	–	–
Investment in subsidiaries	–	24,883	24,883
Property, plant and equipment	–	43	43
Deferred tax assets	–	14	14
Right-of-use assets	–	115	115
Other non-current assets	–	3,796	3,796
	6,171	40,902	47,073

	Other financial liabilities $'000	Non-financial liabilities $'000	Total $'000
Liabilities			
Trade payables and other current liabilities	327	8	335
Income tax payable	–	1	1
Due to subsidiaries (trade)	18,045	–	18,045
Pension benefits obligation	3,750	–	3,750
Lease liabilities	258	--	258
Term loans	–	225	225
	22,380	234	22,614

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33. FINANCIAL INSTRUMENTS (continued)

a) Classification (continued)

2018 **Group**	Financial assets $'000	Non-financial assets $'000	Total $'000
Assets			
Cash and bank balances and fixed deposits	8,781	–	8,781
Trade receivables	14,727	–	14,727
Other current assets	1,263	15,825	17,088
Inventories	–	33,850	33,850
Property, plant and equipment	–	21,600	21,600
Investment property	–	3,061	3,061
Assets held for leasing	–	6,317	6,317
Goodwill	–	709	709
Deferred tax assets	–	13	13
Other non-current assets	–	6,744	6,744
	24,771	88,119	112,890

2018 **Group**	Other financial liabilities $'000	Non-financial liabilities $'000	Total $'000
Liabilities			
Bank loans	32,716	–	32,716
Trade payables and other current liabilities	5,936	865	6,801
Trust receipts and acceptances payable	–	–	–
Income tax payable	–	1,097	1,097
Term loans	8,098	–	8,098
Pension benefits obligation	–	585	585
Deferred tax liabilities	–	202	202
Deferred lease income	–	43	43
	46,750	2,792	49,542

33. FINANCIAL INSTRUMENTS (continued)

a) Classification (continued)

2018
Company

	Financial assets $'000	Non-financial assets $'000	Total $'000
Assets			
Cash and bank balances and fixed deposits	296	–	296
Trade receivables	7,034	–	7,034
Other current assets	376	15,101	15,477
Inventories	–	77	77
Due from subsidiaries (trade)	34,676	–	34,676
Investment in subsidiaries	–	24,883	24,883
Property, plant and equipment	–	44	44
Deferred tax assets	–	13	13
Other non-current assets	–	3,800	3,800
	42,382	43,918	86,300

	Other financial liabilities $'000	Non-financial liabilities $'000	Total $'000
Liabilities			
Trade payables and other current liabilities	718	12	730
Income tax payable	–	2	2
Due to subsidiaries (trade)	56,588	–	56,588
Pension benefits obligation	–	133	133
Term loans	5,000	–	5,000
	62,306	147	62,453

b) Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's-length transaction, other than in a forced or liquidation sale.

Financial instruments whose carrying amounts approximate fair values

Management has determined that the carrying amounts of cash and bank balances, fixed deposits, due from an affiliated company, corporate shareholder and subsidiaries, trade receivables, other current assets, trade payables and other current liabilities, term loans, bank loans and trust receipts and acceptances payable, based on their notional amounts, reasonably approximate their fair values because these are mostly short-term in nature or are repriced frequently.

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33. FINANCIAL INSTRUMENTS (continued)

c) Fair values (continued)

Financial instruments carried at other than fair value

Non-current financial instruments carried at other than fair value set out below is a comparison by category of carrying amounts and estimated fair values of all of the Group's and Company's financial instruments that are carried in the financial statements at other than estimated fair values as at 31 December.

	Group				Company			
	Carrying Amount		Fair Value		Carrying Amount		Fair Value	
	2019	2018	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities:								
Long-term loans	6,257	8,098	5,933	2,912	3,750	5,000	3,750	5,000

Methods and assumptions used to determine fair values

The methods and assumptions used by management to determine fair values of financial instruments other than those whose carrying amounts reasonably approximate their fair values as mentioned earlier, are as follows:

Financial assets and liabilities	Methods and assumptions
• Term loans • Long-term loans	Fair value has been determined using discounted estimated cash flows. Where repayment terms are not fixed, future cash flows are projected based on management's best estimates. The discount rates used are the current market incremental lending rates for similar types of lending, borrowing and leasing arrangements. The fair values are based on discounted net present value of cash flows using effective discount rates of (2019: 3.0% to 8.5%) (2018: 2.3% to 8.5%).

34. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by the sum of total capital and net debt. The Group's policy is to keep the gearing ratio in the range of 40.0%-60.0%. The Group includes within net debt, loans and borrowings, trade payables and other current liabilities, less cash and bank balances and fixed deposits. Capital includes equity attributable to the equity holders of the Company.

	Group	
	2019 $'000	2018 $'000
Loans and borrowings	42,536	40,814
Trade payables and other current liabilities	3,836	6,801
Less: Cash and bank balances and fixed deposits	(8,000)	(8,781)
	38,372	38,834
Equity attributable to the equity holders of the Company	63,570	62,332
Capital and net debt	101,942	101,166
Gearing ratio	37.6%	38.4%

35. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution by the Board of Directors on April 9, 2020.

A Leader In Medical Consumables

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如欲索取本公司的紙本年報，請載明姓名、收件地址發送電子郵件至 investor.relations@medtecs.com

To request a physical copy of the annual report, please submit a request via email to investor.relations@medtecs.com with your full name and delivery address