MEDTECS
INTERNATIONAL CORPORATION LIMITED

Annual Report 2016

美德醫療集團年報

A Corporation listed in Singapore Exchange Securities Trading Limited (SGX-ST) Catalist

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MEDTECS
INTERNATIONAL CORPORATION LIMITED
FY2016 ANNUAL REPORT

Corporate Profile 1
Corporate Structure 2
Chairman's Message 3
Financial Review 5
Business Outlook and Prospects 7
Corporate Directory 10
Profile of the Board of Directors 12
Financial Calendar 15
Report on Corporate Governance 16
List of Properties 32
Statistics of Shareholdings 33
Twenty Largest Shareholders 34
Notice of Annual General Meeting 36

Corporate Profile

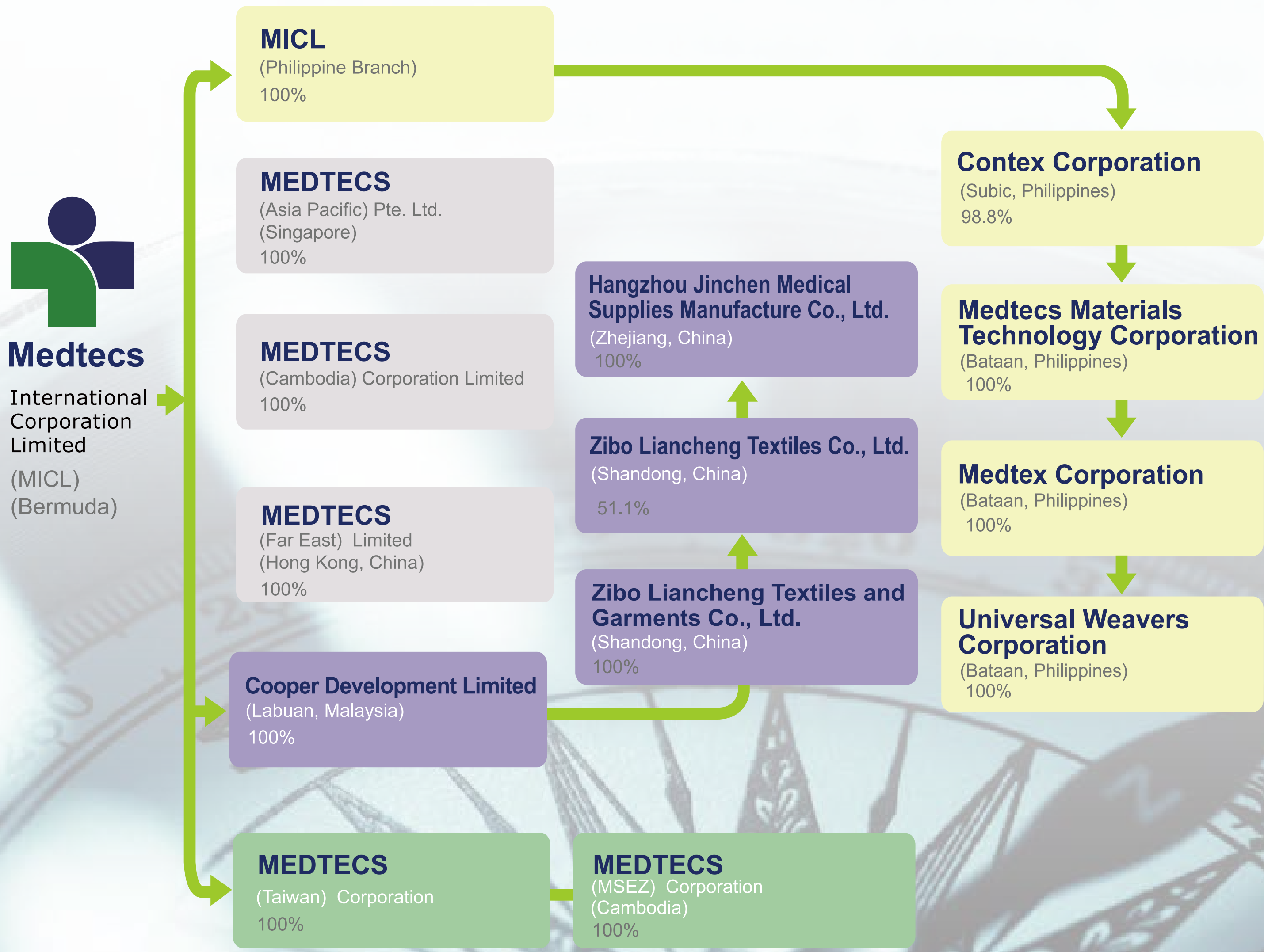
Medtecs International Corporation Limited (the "Company") is a well-known healthcare products and services provider and a leading manufacturer of medical consumables. The Company and its subsidiaries (collectively, the "Group") commenced operations in the Philippines in 1989 and has since established 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's main lines of business include manufacturing original products and providing integrated hospital services. As an original product manufacturer (OPM) of a wide range of medical consumables, and hospital and work wear apparels, the Group maintains manufacturing facilities located in the Philippines, China and Cambodia. As a hospital 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 services in the Philippines, covering 25 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 services 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.

The Company was listed on Singapore Dealing and Automated Quotation System (SESDAQ) of the Singapore Exchange Securities Tradings Limited ("SGX-ST") on 6 October 1999 and transitioned to the Catalist-sponsored regime regime with R & T Corporate Services Pte. Ltd. on 26 February 2010. The Company 's Taiwan Depository Receipts ("TDR") were listed on the Taiwan Stock Exchange (TWSE) on 13 December 2002.

Corporate Structure



Chairman's message

Clement, Yang Ker-Cheng
Chairman & CEO.

Dear Shareholders

I am pleased to present you the annual report for Medtecs International Corporation Limited for the financial year ended December 31st 2016 (" **FY16**").

The Year 2016 in Review

Group's sales strategy focusing on high-margin products led to improved profitability despite a slight decline in revenue in **FY1**6.

Specifically, Group revenue decreased by 6.5% to US$57.6 million in **FY16**. Gross profit decreased by 6.3% to US$9.3 million in **FY16** due to lower revenue and higher material cost yet net profit increased.

Revenue from the Original Product Manufacturing ("OPM") division decreased by 11.3% to US$42.8 million in **FY16** from US$48.3 million for the financial year ended 31 December 2015 (''**FY15**''), reflecting adjustment of our product line.

Revenue from Hospital Services division improved by 5.8% to US$11.9 million in FY16 from US$11.3 million in **FY15** attributable to higher linen consumption and additional contracts in the Philippines and Taiwan. Trading, Distribution and other division revenues increased by 39.0% to US$2.9 million in **FY16** from US$2.1 million in **FY15** arising from higher trading opportunities in Taiwan.

The Group achieved a net profit attributable to ordinary shareholders of US$1.0 million in **FY16**. The net profit attributable to ordinary shareholders increased by 91.9% to US$1.0 million in **FY16**.

Current year focus and prospects

The Group expects growth in its manufacturing business with the full operation of its new manufacturing facility in Bavet, Cambodia. The Group also sees China as a growth area and will leverage on such growth through the Group's manufacturing facility in Hangzhou.

The Group will work to increase its business with our existing customers in the US and Europe and continue to be on the lookout for potential new institutional customers in the global market. The Group recognizes the potentials of the local markets in Asia Pacific, both in its manufacturing and hospital services department and will focus our marketing efforts in this region.

The Group has also improved its efficiency in the Philippine operations through the recent disposition of an idle building and inventory. These have reduced costs, complementing the Group's cost-cutting efforts. Selling and operating expenses are aintained at a minimum level as the we pursue cost reduction schemes in all its business and production departments. This will help us in improving our margins and minimizing the impacts of rising labor cost, volatility in material cost and the shifting economic conditions.

Our Research and Development Division will work on continuously implementing new technology to ensure efficient processes, product quality and standards. Cambodia is our key manufacturing hub with the addition of the new and more technologically advanced manufacturing facility in Bavet, Cambodia. Environmental and social audits have been undertaken by an independent consultant (Social Accountability International) to further improve the workplace for more efficient production while putting safety precautions in place for the benefit of the labor force.

We remain vigilant about upcoming global healthcare and disease prevention trends as well as deteriorating air conditions as our personal protective apparels will help with disease prevention. E-commerce has been used extensively to support growth in Taiwan and the Philippines. Again, some new product lines are expected to be added into our sales channel, which is expected to lead to steady increase in our business.

Our hospital services operations (e.g. linen leasing) in the Philippines and Taiwan continue to remain strong as we source for more hospital service contracts. We will leverage on our core competencies to ramp up our Taiwan operations.

We will continue to keep a close watch on our labor, energy and raw materials costs and liaise closely with our suppliers to seek more cost-effective solutions.

Barring unforeseen circumstances, we expect to have another profitable year for the Group.

Acknowledgements

On behalf of the Board, I would like to thank our Directors for their esteemed guidance and the Executive Management team for their continued strong leadership. I would also like to thank our global community of officers and managers for their dedication to their customers and colleagues, and for representing Medtecs. To our most valued shareholders, I thank you for your continued support.

Clement, Yang Ker-Cheng
Chairman & CEO.

Financial Review

Business Overview

The Group had lower demands from its existing customers in FY16 which led to the decrease in the Group's revenue by 6.5% to US$57.6 million in FY16 from US$61.6 million in FY15. The Group's net profit increased to US$1.0 million in FY16 from US$0.5 million in FY15 coming from lower overhead costs and gain on sale of building.

Income Statement Review
Revenues

Revenues from the Original Product Manufacturing ("OPM") division decreased by 11.3% to US$42.8 million in FY16 from US$48.3 million in FY15due to lower orders from their existing customers.

Revenues from Hospital Services division continuously improved by 5.8% to US$11.9 million in FY16 from US$11.3 million in FY15 attributable to higher linen consumption and additional hospital contracts in Philippines and Taiwan. Trading, Distribution and other division revenues increased by 39.0% to US$2.9 million in FY16 from US$2.1 million in FY15 arising from higher trading opportunities in Taiwan.

Profitability

The Group's gross profit decreased by 6.3% to US$9.3 million in FY16 from US$9.9 million in FY15 arising from lower revenues and higher material cost.

Gross Profit from the OPM division declined by 9.6% to US$7.7 million in FY16 from US$8.6 million in FY15 attributable to lower revenues and higher material cost. This was mitigated by savings from depreciation expense and energy costs. Hospital Services division gross profit increased by 9.6% to US$1.1 million in FY16 from US$0.9 million in FY15 due to higher revenues in Taiwan and Philippines. Gross Profit from Trading, Distribution and other division increased by 34.5% to US$0.4 million in FY16 from US$0.3 million in FY15 arising from higher trading opportunities in Taiwan.

The Group's net other operating income increased by 57.5% to US$0.9 million from gain on sale of building and translation gains.

The Group's net profit increased by 91.9% to US$1.0 million in FY16 from US$0.5 million in FY15from lower overhead cost and gain on sale of building.

The Group's Comprehensive income increased by 392% to US$1.4 million from improved net profit and exchange differences on consolidation.

"Net profits improved by 91.9% to 1.0 million in FY2016"

Review of the Balance Sheet of the Group

Total assets of the Group decreased by US$3.7 million to US$105.6million in FY16 from US$109.3 million in FY15 mainly from lower inventories and depreciation of property, plant and equipment.The Group's borrowings increased to US$31.6 million in FY16 from US$29.0 million in FY15 from new bank loans.

The Group generated an operating cash flow of US$4.7 million in FY16 from the positive operating cash flow of US$6.9 million in FY15. On its investing activities, US$3.2 million was used for the new production facility in Medtecs MSEZ Corp. Ltd. and additional linens for the hospital services segment. Cash outflow of US$1.8 million from financing activities was mainly the result of payment of borrowing loans.

Business Outlook and Prospects

"The Company has increased its Cambodia Production Base."

The Group intends to pursue new customers and opportunities to further complement its current OPM customer base in US and Europe.

The Group has identified potential in the hospital service division with new prospective hospital service clients in Taiwan and the Philippines.

The People's Republic of China is a growth area for the Group by leveraging on the Group's manufacturing facility in Hangzhou.

The Group will try to optimize their margins by increasing the efficiency of its operation through cost reduction scheme to counter the rising labor cost and volatility in the world market. The Group has also streamlined its operations in the Philippines to improve the efficiency of its operations.

The Group remains vigilant on opportunities in the growing market for the health safety and disease control protective apparels.

Barring unforeseen circumstances, the Group expects to remain profitable in the financial year ending 31 December 2017.

Original Product Manufacturing

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

We continue to explore potential new customers to complement the existing US and Europe customer base of the Company. We are also increasing our presence and activity in the Asia Pacific region by actively pursuing the local markets in the region. We see a stable demand for consumables and other products in the healthcare, hospitality and personal protective apparels.

We have streamlined our Philippine operations to increase production efficiency. We have also expanded our Cambodia production base with the incorporation of Medtecs MSEZ Corp. Ltd. in Bavet, Cambodia to take advantage of the favorable cost-conditions in Cambodia.

We also expect growth in its business in the People's Republic of China and will leverage on such growth through its existing manufacturing facility in Hangzhou.

"OPM remains the flagship division of the Company"

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 Philippine and Taiwan with more hospitals outsourcing the non-core hospital operations over the region.

"Expand market share in Taiwan and Philippines"

Trading and Distribution and Others

Our trading and distribution business is critical to the Group not only as a stand-alone profit center but it also provides auxillary support to our other divisions. The Groups is on the lookout for more opportunities for its personal protective apparels 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.

Research and Development

Our Research and Development Division would focus on the following:

1. Linen control device – We are adding tags with barcode or RFID onto our products for our hospital leasing business. This could not only prevent assets-loss but also improve service quality.
2. Polyester – We are developing different multi-composition materials that are more environmental-friendly to replace some of the current materials.
3. Infection Control textiles – We are developing different kinds of fabric with anti-microbial finish that can last for more than 100 washing-cycles to better protect hospital employees and patients.

"Vigilance against Future Pandemics will open up trading opportunities"

Corporate Social Responsibility Statement

The Group recognises the importance of being a responsible global corporate citizen. In addition, our unique position as a leading integrated healthcare product and services provider enables us to play an integral part in the betterment of the quality of life.

We strive not only to comply with, but to exceed the standards of international laws on labour, safety, health and environment. We believe that the Company's stakeholders go beyond our shareholders.

The Group operates its facilities on the principle of energy-efficiency, industrial waste minimization and general environmental awareness and is constantly upgrading our equipment to effect this. Our manufacturing plants are operated with worker safety and health foremost among our concerns. We strive to instill such values among our suppliers, service providers and business associates.

Specifically, the Group has contributed to relief efforts during recent outbreaks and natural disasters. The Group has been on the forefront of disease prevention against global outbreaks like SARS, H1N1, Ebola and others through its medical consumables and personal protective apparels.

In August 2007, the Group donated linens, blankets and other hospital supplies to a children's hospital in Cambodia. In May 2008, we supplied medical consumables and hospital supplies to various international charitable organizations involved in the Sichuan earthquake disaster relief efforts and also donated money. In October 2009, the Company donated goods and money to affected regions of the Typhoon Ketsana and Parma in the Philippines. In February 2011, we donated blankets to an orphanage in Myanmar. Our commitment to our corporate social responsibility was mirrored by many of the staff in our Taipei and Philippines offices who donated their one day's salary to the victims of these disasters and various charitable institutions.

Environmental and social audits have been undertaken by an independent consultant (Social Accountability International) to further improve the workplace for more efficient production while putting safety precautions in place for the benefit of the labor force.

The Group's commitment to corporate social responsibility not only extends to our workers, employees, officers and directors, but also instills in the minds of our shareholders and customers the responsibility to protect the environment. We impose upon our suppliers and service providers who wish to do business with the Group to observe and comply with international as well as local laws concerning the rights, safety and health of workers and the reduction of industrial waste.

Corporate Directory

Board of Directors

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

Audit Committee

- Lim Tai Toon
  Chairman
- Lam Kwong Fai
  Member
- Carol Yang Xiao-Qing
  Member

Remuneration Committee

- Lam Kwong Fai
  Chairman
- Carol Yang Xiao-Qing
  Member
- Lim Tai Toon
  Member
- Clement Yang Ker-Cheng
  Member
- Xia Junwei
  Member

Nominating Committee

- Carol Yang Xiao-Qing
  Chairman
- Lim Tai Toon
  Member
- Lam Kwong Fai
  Member
- Clement Yang Ker-Cheng
  Member
- Xia Junwei
  Member
- William Yang Weiyuan
  Member

Company Secretaries

- Abdul Jabbar Bin Karam Din
  (Joint Company Secretary)
- Loh Lee Eng
  (Joint 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 Battery Road #25-01
  Singapore 049910
- Registered Professionals:
  Evelyn Wee Kim Lin, Howard Cheam Heng Haw

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

- Bank SinoPac
  No.260, Sec.2, Beixin Rd., Xindian Dist.,
  New Taipei City 231, Taiwan
- Bank of Taiwan
  2F-2, No.66, Sanchong Rd., Nangang Dist.,
  Taipei Taiwan
- Cathay United Bank - Manila Branch
  Unit 1, 15th Floor, Tower 6789
  No. 6789 Ayala Avenue,
  Makati City, 1226
- Mega International Commercial Bank Co. Ltd.
  3rd Floor, Pacific Star Building
  Gil Puyat Avenue, Makati City, 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 not subject to retirement and re-election at AGM)

Mr Clement Yang Ker-Cheng is the Chairman and Chief Executive Officer of the Company. He oversees the overall management, strategic planning, product development and marketing of the Group. He has been the Chief Executive Officer of the Group's operations since 1990 and is a member of the Executive, Remuneration and Nominating Committees. 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, 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 twenty 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 Non-Executive Chairman

(Appointed as Director in 2015 and re-elected in 2016)

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 and Remuneration Committees.

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), LingholmPte Ltd (subsidiary focusedon commodities trading) and Lingholm Logistics Pte Ltd (subsidiary focused on logistics). 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 Wilfrido Candelaria Rodriguez | Executive Director

(Appointed as Director in 1997 and re-elected in 2016)

Mr Wilfrido Candelaria Rodriguez was appointed as an Executive Director on 26 November 1997 and was appointed Chief Financial Officer ("CFO") on 10 December 2008. He is a member of the Executive Committee.

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 William Yang Weiyuan | Executive Director

(Appointed as Director in 2016)

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

Mr. Yang graduated from New York Institute of Technology with a degree in Electrical and Computer Engineering in 2005. He is the 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. Yang has over 8 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 Lim Tai Toon | Lead Independent Director

(Appointed as Director in 2010, re-elected in2015 and subject to retirement and re-election 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). Mr Lim is a full Member of Singapore Institute of Directors and Fellow Chartered Accountant of Institute of Singapore Chartered Accountants.

Ms Carol Yang Xiao-Qing | Independent Director

(Appointed as Director in 2005, re-elected in 2015 and subject to retirement and re-election 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 SchauenburgTruplast 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.

Mr Lam Kwong Fai | Independent Director

(Appointed as Director in 2015 and re-elected in 2016)

Mr Lam Kwong Fai was appointed as an Independent Director of the Company on 31 July 2015 and is theChairman of the Remuneration Committee. He is a member of the Audit and Nominating Committees.

Mr Lam is currently an Associate Director, Continuing Sponsorship, at PrimePartners Corporate Finance PteLtd. He has been a Registered Professional since 2011. He started his career as a regulator before movinginto investment banking with HL Bank and Genesis Capital Pte Ltd handling a variety of IPO and othercorporate actions. He then moved into Catalist regulation, working with a wide portfolio of listed companies, advising on the listing rules and corporate governance. In his various capacities, he has amassed over 10 years of experience in the Singapore corporate finance scene.

Mr Lam obtained a Bachelor of Accountancy from Nanyang Technological University in 2002

Financial Calendar

FY 31 December 2016

Announcement of Full Year Results

28 February 2017

Annual General Meeting

28 April 2017

FY 31 December 2017

Proposed Announcement of Half Year Results

Middle of August 2017

Proposed Announcement of Full Year Results

Last week of February 2018

Report on Corporate Governance

Medtecs International Corporation Limited (the "Company") is committed to ensuring and maintaining a high standard of corporate governance within the Company and its subsidiaries (the "Group"). Good corporate governance establishes and maintains a legal and ethical environment, which helps to preserve and enhance the interests of all shareholders.

This report describes the corporate governance framework and practices of the Company with specific reference to the principles of the Singapore Code of Corporate Governance in 2012 (the "Code").

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

The Company has complied, in all material aspects, with the principles and guidelines of the Code.

(A) BOARD MATTERS

Board's Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long term success of the company. The Board works with Management to achieve this objective and the Management remains accountable to the Board.

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

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. It supervises the management of the business and affairs of the Group, provides 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 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"); and

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

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

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; and
- matters which require the Board's approval as specified under the Company's interested person transactions policy.

◎ Board Committees

To assist the Board in the execution of its responsibilities, the Board has established Board committees, namely the AC, the NC and the RC (collectively, the "Board Committees"), each of which functions within clearly defined terms of reference and operating procedures which are reviewed on a regular basis.

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

DIRECTORS	BOARD		AC		RC		NC	
	No. of meetings	Attended	No. of meetings	Attended	No. of meetings	Attended	No. of meetings	Attended
Clement Yang Ker-Cheng	4	4	-	-	4	4	4	4
Xia Junwei [(a)]	4	4	-	-	4	4	4	4
Wilfrido Candelaria Rodriguez	4	4	-	-	-	-	-	-
William Yang Weiyuan	4	4	-	-	-	-	4	4
Lim Tai Toon	4	4	4	4	4	4	4	4
Carol Yang Xiao-Qing	4	3	4	3	4	3	4	3
Lam Kwong Fai	4	4	4	4	4	4	4	4

(a) Re-designated from a Non-Executive and Non-Independent Director to an Executive Director of the Company on 5 July 2016.

◎ 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.

All Directors have many years of corporate experience and are familiar with their duties and responsibilities as Directors. Directors also have the opportunity to visit the Group's operational facilities and meet up with the management to gain a better understanding of the Group's business operations. At the time of 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 management of the Company on the business activities of the Group and its strategic directions and corporate governance practices.

The Company 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.

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.

Board Composition and Balance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

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)

Wilfrido Candelaria Rodriguez
(Chief Financial Officer)

William Yang Weiyuan (Executive Director)

Independent Directors

Lim Tai Toon (Lead Independent Director)

Carol Yang Xiao-Qing (Independent Director)

Lam Kwong Fai (Independent Director)

The size and composition of the Board are reviewed from time to time by the NC to ensure that the size of the Board is conducive to 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, 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.

◎ 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. The NC is of the view that the three (3) Independent Directors (who represent more than one-third of the Board) are independent 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 Code requires the independence of any Director who has served on the Board for more than nine years to be rigorously reviewed. In respect of Ms Carol Yang Xiao-Qing who has served on the Board for more than nine years from the date of her first appointment on 1 May 2005, the NC has reviewed based on, amongst others, her attendance and contributions at meetings of the Board and Board Committees and confirmed that Ms Carol Yang Xiao-Qing is independent. Taking into account the views of the NC, the Board concurs that Ms Carol Yang Xiao-Qing continues to demonstrate strong independence in character and judgment in the discharge of her responsibilities as a Director of the Company. Ms Carol Yang Xiao-Qing has continued to express her individual viewpoints, debated issues and objectively scrutinized and challenged the management. Ms Carol Yang Xiao-Qing has sought clarification and amplification as she 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 has, over time, developed significant insights into the Group's business and operations and provided valuable contributions to the Board through her integrity, objectivity and professionalism notwithstanding her years of service. Further, having gained in-depth understanding of the business and operating environment of the Group, Ms Carol Yang Xiao-Qing provides the Company with much needed experience and knowledge of the industry. Based on the declaration of independence from Ms Carol Yang Xiao-Qing, she has no association with the management that could compromise her independence. The NC and the Board have concluded that Ms Carol Yang Xiao-Qing continues to be considered as an Independent Director. Ms Carol Yang Xiao-Qing has abstained from participating in the deliberation and decision on her independence.

Mr Lim Tai Toon and Mr Lam Kwong Fai are residents in Singapore. Hence, the Company is in compliance with the Listing Manual, Section B: Rules of Catalist ("Rules of Catalist") which requires that there should at least be one (1) independent director who is residing in Singapore.

The Non-Executive Directors 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 Non-Executive Directors 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. The Non-Executive Directors meet and discuss on the Group's affairs without the presence of the management where necessary.

Chairman and Chief Executive Officer ("CEO")

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

The Board is of the view that it is in the best interests of the Group to adopt a single leadership structure where the CEO and Chairman of the Board is the same person, so as to ensure that the decision-making process of the Group would not be unnecessarily hindered.

The Group's Chairman and CEO is Mr Clement Yang Ker-Cheng, who is responsible for the day-to-day operation of the Group. He played an instrumental role in developing the business of the Group and has also provided the Group with strong leadership vision.

Mr Xia Junwei, who was appointed as a Deputy Non-Executive Chairman on 20 November 2016 and re-designated as a Deputy Executive Chairman of the Company on 5 July 2016, is responsible for the Group's development plans into the China market.

The Chairman and CEO exercises control over quality, quantity and timelines of information flow between the Board and the management. He ensures that Board meetings are held when necessary and sets the Board meeting agenda in consultation with the Directors. The Chairman and CEO reviews the Board papers before they are presented to the Board and ensures 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 CEO is responsible for ensuring effective communication with shareholders and the Company's compliance with the Code.

To ensure a balance of power and authority, 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, CEO or the Chief Financial Officer 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 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: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

The NC comprises the following six (6) members, half of whomareNon-Executive Directors, including the NC Chairman, who is an Independent Director:

Carol Yang Xiao-Qing (Chairman)

Lim Tai Toon

Lam Kwong Fai

Clement Yang Ker-Cheng

Xia Junwei

William Yang Weiyuan

The Board considers that, MrClement Yang Ker-Cheng (the Chairman and CEO), Mr Xia Junwei (the Deputy Executive Chairman) and MrWilliam Yang Weiyuan (an Executive Director) significantly contribute to, amongst others, the selection and appointment of new Directors and KMP. The Board further believes that the current structure and membership of the NC is beneficial to the Company and will not increase the risk of any potential conflict of trust.

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;
- 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.

The NC is responsible for the 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 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. In addition, Bye-Law 85 provides that a newly appointed Director shall hold office until the next following AGM and shall be eligible for re-election at that AGM. 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 and Chief Executive Officer	19 November 1997	N.A.	None	None	None	N.A.
Xia Junwei	Deputy Executive Chairman	15 October 2015	29 April 2016	None	None	Tianjin Harbour Shengshi Investment Holding Lingholm Group of Companies	N.A.
Wilfrido Candelaria Rodriguez	Executive Director and Chief Financial Officer	26 November 1997	29 April 2016	None	None	None	N.A.
Carol Yang Xiao-Qing	Independent Director	1 May 2005	30 April 2015	None	None	None	Retirement by rotation (Bye-Law 86)
Lim Tai Toon	Lead Independent Director	29 October 2010	30 April 2015	None	None	None	Retirement by rotation (Bye-Law 86)
William Yang Weiyuan	Executive Director	2 September 2013	29 April 2016	None	None	None	N.A.
Lam Kwong Fai	Independent Director	31 July 2015	29 April 2016	None	None	Associate Director of Prime Partners Corporate Finance Pte Ltd	N.A.

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.

Board Performance

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its committees and the contribution by each director to the effectiveness of the Board.

The NC reviews the criteria for evaluating the Board's performance and recommends to the Board a set of objective performance criteria focusing on enhancing 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.

The performance criteria for the Board evaluation includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, Board processes, Board performance in relation to discharging its principal responsibilities, communication with management and standards of conduct of the Directors. The Chairman and 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.

Access to Information

Principle 6: In order to fulfill their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

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. All Directors have separate and independent access to the management, including the Company Secretary at all times. 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.

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The RC comprises the following five (5) members, majority of whom, including the RC Chairman are Independent Directors:

Lam Kwong Fai (Chairman)
Lim Tai Toon
Carol Yang Xiao-Qing
Clement Yang Ker-Cheng
Xia Junwei

The Board considers that MrClement Yang Ker-Cheng (the Chairman and CEO) and Mr Xia Junwei (the Deputy Executive Chairman) significantly contribute in the evaluation by the RC on the performances of KMP and senior management staff. The Board further believes that the current structure and membership of the RC is beneficial to the Company and will not increase the risk of any potential conflict of interests.

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.

The RC reviews all aspects of remuneration and compensation packages including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind.

No Director is involved in determining his own remuneration.

Level and Mix of Remuneration

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company and (b) KMP to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

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.

Annual review of the remuneration of Directors is also carried out by the RC to ensure that the remuneration of the Executive Directors and KMP 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 CEO (along with that of other KMP) is reviewed periodically by the RC.

There is a service contract signed by each of the four (4) Executive Directors. None of the service contracts has onerous removal clauses. The Chairman and CEO's service contract has a fixed appointment period.

The Company has an ESOS 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.

The Non-Executive Directors have no service contracts with the Company and their terms are specified in the Bye-Laws. Non-Executive Directors are paid a basic fee 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.

Disclosure on Remuneration

Principle 9: Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and KMP, and performance.

The breakdown of remuneration of the Directors, the top KMP (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	83%	—	17%	100%	Below S$250,000
Xia Junwei[(a)]	—	—	100%	100%	Below S$250,000
Wilfrido Candelaria Rodriguez	91%	—	9%	100%	Below S$250,000
William Yang Weiyuan	85%	—	15%	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
Lam Kwong Fai	—	—	100%	100%	Below S$250,000

(a) Re-designated from a Non-Executive and Non-Independent Director to an Executive Director of the Company on 5 July 2016.

(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 29 April 2016.

◎ Remuneration of Top Key Management personnel who are not Directors

Names of keyexecutives (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 aggregate of total remuneration paid to the top two KMP (who are not Directors or the CEO) for the financial year ended 31 December 2016 was S$69,000.

◎ Remuneration of Employees who are Immediate Family Members of a Director/CEO

There were no employees who are immediate family members of a Director or the CEO, whose remuneration exceeded S$50,000 during the financial year ended 31 December 2016.

There are no termination, retirement and post-employment benefits that may be granted to Directors and KMP (who arenot Directors or the CEO).

To preserve confidentiality on the remuneration policies of the Company, the Board is of the view that it is in the best interests of the Company not to fully disclose the remuneration of each individual Director and KMP.

◎ 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. Further details of the ESOS are set out in the Directors' Report.

(C) ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

The management provides the Board with a continual flow of relevant information on a timely basis and as the Board may require from time to time to enable the Board to make a balanced and informed assessment of the Company's performance, position and prospects and meets the Board regularly for discussions on operational and financial matters.

The Board reviews and approves the results as well as any announcements before its release. The Board provides shareholders with half-yearly and annual financial reports. Results for the half year are released to shareholders within 45 days from the end of the half year. Annual results are released within 60 days from the financial year-end. In presenting the annual and half-yearly financial statements to shareholders, the Board aims to provide shareholders with a balanced and clear assessment of the Group's position and prospects. The Board also ensures timely and full disclosure of material corporate developments to shareholders.

The Board also reviews legislation on and regulatory compliance reports from the management to ensure that the Group complies with the relevant regulatory requirements.

For the financial year under review, the CEO and Chief Financial Officer ("CFO") have provided assurance to the Board on the integrity of the financial statements for the Company and its subsidiaries.

Risk Management and Internal Controls

Principle 11: The Board is responsible for the governance at risk. The Board should ensure that the Management maintains a sound system of risk management and internal controls to safeguard the shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

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

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 system of internal controls in addressing financial, operational, compliance and information technology risks. 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 and the CFO that:

a. the financial records of the Group have been properly maintained and the financial statements for the financial year ended 31 December 2016 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 addressing financial, operational and compliance risks as well as the Group's information technology control and risk management systems which the Group considers relevant and material to its operations were adequate and effective as at 31 December 2016.

The Board notes that the system of internal controls and risk management provides 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 system 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 31 to the Financial Statements of this annual report.

Audit Committee

Principle 12: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

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

Lim Tai Toon (Chairman)

Carol Yang Xiao-Qing

Lam Kwong Fai

The AC oversees the quality and integrity of the accounting, auditing, internal controls and financial practices of the Group. All members of the AC have many years of experience in senior management positions in both financial and industrial sectors. 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. No former partner or director of the Company's current auditing firm or auditing corporation is a member of the AC.

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

- reviews the half-yearly and annual financial statements 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 Singapore Exchange Securities Trading Limited ("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 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 and 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;
- 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 on the financial statements, related compliance policies and programmes and any reports received from regulators;
- 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;
- advises the Board on the appointment and re-appointment of external auditors; 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 of the Group's internal controls and the contents and presentation of its reports.

The AC is authorised to investigate any matter within its terms of reference, and has full access to themanagement 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.

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 suchnon-audit services would not affect their independence. The external auditors did not provide any non-audit services during the financial year ended 31 December 2016. 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 Company is in compliance with Rule 712, Rule 715 and Rule 716 of the Rules of Catalist in relation to its external auditors.

Fees paid to external auditors may be found in Note 25 of the financial statements of the annualreport. There were no non-audit fees paid to them for the year ended 31 December 2016.

Internal Audit

Principle 13: The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The internal audit team is headed by the Internal Audit Manager. He reports findings and recommendations to the Chairman of the AC and reports administratively to the CEO. The Internal Audit Manager has unfettered access to all the Company's documents, records, properties and personnel, including access to the AC. The AC approves the hiring, removal, evaluation and compensation of the Internal Audit Manager and reviews internal audit reports on a quarterly basis, as well as reviews and approves the annual internal audit plans and resources to ensure that the internal audit team has the necessary resources to adequately perform its functions. The AC reviews the adequacy and effectiveness of the internal audit function annually. The Internal Audit Manager has adopted the Standards for Professional Practice of Internal Auditing (the "Standards") set by the Institute of Internal Auditors.

To ensure that internal audits are performed by competent professionals, the Company's internal audit department recruits and employs suitably qualified staff. To ensure that their technical knowledge is up-to-date, the Company identifies and provides training and development opportunities for the staff. The Company's internal audit function meets with the Standards.

(D) SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Shareholder Rights

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognize, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

Communication with Shareholders

Principle 15: Companies should actively engage their shareholders and put in place on investor relations policy to promote regular, effective and fair communication with shareholders.

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Company believes that a high standard of disclosure is key to raising the level of corporate governance. Half year and full year results are published through the SGXNET and news releases. All information of the Company's new initiatives is disseminated via SGXNET.

All shareholders are treated fairly and equitably to facilitate their ownership rights. 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 Company does not practise selective disclosure. Price sensitive information is publicly released and results and annual reports are announced or issued within the mandatory period. 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 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.

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.

Shareholders can vote in person or appoint not more than two (2) proxies to attend and vote on their behalf at general meetings of shareholders. There is no provision in the Company's Bye-Laws that limits the number of proxies for nominee companies.

Each item of special business included in the notice of the 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, which incorporates substantial comments or queries from shareholders and responses from the Board and the management. These minutes are available to shareholders upon request.

The Compang does not have a fixed dividend policy. The form, frequency and amount of future dividends decalred will depend on earnings, general financial position, results of operation, capital requirements, cash flow, general business condition, or development plans and other factors as our directors may, in their absolure discretion, deem appropriate.

(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 2016 or if not subsisting, entered into since the end of the previous financial year ended 31 December 2015.

(F) DEALING WITH SECURITIES

IIn 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 ofthe Company and of the Group. In particular, it has been highlighted that it is an offence to deal inthe 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 for short-term considerations.The Company, while having provided the window periods for dealing in the Company's securities, issues reminders that the law on insider trading is applicable at all times.

The Board confirms that for the financial year ended 31 December 2016, the Company has complied the 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 2016. 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 2016, was approximately SG$57,000.

(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
Office space	Khan Chankamorn, Phnom Penh Cambodia	1,368	3 years
Industrial lot	7th Street, Phase II Mariveles Bataan,Philippines	17,856	10 years
Industrial lot	7th Street, Phase II Mariveles Bataan,Philippines	2,752	50 years
Industrial lot	SBMA, Olongapo City, Bataan,Philippines	13,124	50 years
Industrial lot	7th Street, Phase II Mariveles Bataan,Philippines	4,248	15 years
Industrial lot	7th Street, Phase II Mariveles Bataan,Philippines	5,000	50 years
Office space	9B Country Space Building 133 HV Dela Costa Street Makati City, Philippines	194	2 year
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	141 Cecil Street, #06-04 Tung Ann Association Bldg. Singapore	34	2 years

MEDTECS INTERNATIONAL CORPORATION LIMITED

STATISTICS OF SHAREHOLDINGS

AS AT 17 MARCH 2017

Number of shares issued: **549,411,240**
Class of shares: **Ordinary shares**
Voting Rights: **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	134	0.00
100 - 1,000	186	3.81	76,307	0.01
1,001 - 10,000	3,096	63.40	7,719,708	1.41
10,001 - 1,000,000	1,569	32.13	123,544,383	22.49
1,000,001 AND ABOVE	29	0.60	418,070,708	76.09
TOTAL	**4,883**	**100.00**	**549,411,240**	**100.00**

Distribution of Shareholdings

Distribution of Shareholdings

AS AT 17 MARCH 2017

	Direct Interest	%	Deemed interest	%
Clement Yang Ker-Cheng[(a)]	24,673,285	4.49	33,075,198	6.02
Xia Junwei[(b)]	–	–	81,862,275	14.90

(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.
(b) Xia Junwei is deemed to be interested in 81,862,275 shares held by DBS Nominee (Private) Limited.

PERCENTAGE OF SHAREHOLDINGS IN PUBLIC'S HANDS

74.59% of the Company's shares are held in the hand of the public as defined in the Listing Manual, Section B: Rules of Catalist of Singapore Exchange Securities Trading Limited ("Catalist Rules"). Accordingly, the Company has complied with Rule 723 of the Catalist Rules.

TWENTY LARGEST SHAREHOLDERS

NAME	NO. OF SHARES	%
CITIBANK NOMINEES SINGAPORE PTE LTD	205,742,300	37.45
DBS NOMINEES (PRIVATE) LIMITED	83,937,675	15.28
YANG CLEMENT K C	24,673,285	4.49
SOUTH WORLD INVESTMENTS LIMITED	18,506,621	3.37
MAYBANK KIM ENG SECURITIES PTE. LTD.	18,320,963	3.33
MORPH INVESTMENTS LTD	13,300,400	2.42
HOLDRICH INTERNATIONAL LTD	6,321,630	1.15
TOP HONESTY INTERNATIONAL CORP	6,321,630	1.15
CHENG LING JONG	4,700,000	0.86
DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	3,934,614	0.72
NEO YAM CHENG OR LEE KWEE LAN	3,660,600	0.67
TAN AI LAN	2,719,200	0.49
PHILLIP SECURITIES PTE LTD	2,509,290	0.46
LEONG KAH HOONG	2,100,000	0.38
CHIA WEI KIANG (XIE WEIQIANG)	2,000,000	0.36
PUA BAN CHOON	1,930,000	0.35
CHIN KIAN FONG	1,700,000	0.31
OCBC SECURITIES PRIVATE LIMITED	1,680,700	0.31
NG BOON GUAT	1,600,000	0.29
LOO KIM LIAN	1,500,000	0.27
TOTAL	**407,158,908**	**74.11**

The Group's Taiwan Depository Receipts ("TDR") were listed on the The Taiwan Stock Exchange on 13 December 2002. The Number of TDR issued at that time was 22,000,000.

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

As at 17 March 2017, the total number of TDR issued by the Company is 205,531,500, which represent for 37.41% of the Company's total number of shares.

INTERESTED PERSON TRANSACTION

Name of Interested Persons	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and under shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)
	2016	2015	
Advances to corporate shareholder	–	–	N/A
Advances to an affiliate	–	–	N/A

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Medtecs International Corporation Limited (the "**Company**") will be held at Changi Room, level 4, Holiday Inn Singapore Atrium 317 Outram Road, Singapore 169075 on Friday, 28 April 2017 at 3:00 p.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Statement and the Audited Financial Statements of the Company for the financial year ended 31 December 2016 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect Ms Carol Yang Xiao-Qing, a Director retiring by rotation pursuant to Bye-Law 86 of the Company's Bye-Laws. [See Explanatory Note (i)] **(Resolution 2)**

3. To re-elect Mr Lim Tai Toon, a Director retiring by rotation pursuant to Bye-Law 86 of the Company's Bye-Laws. [See Explanatory Note (ii)] **(Resolution 3)**

4. To approve the payment of Directors' fees of S$201,000.00 for the financial year ending 31 December 2017, to be paid quarterly in arrears. (2016: S$201,000.00) **(Resolution 4)**

5. To re-appoint Messrs SyCip Gorres Velayo & Co. as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 5)**

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without modifications:

7. "That pursuant to Rule 806 of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist (the "**Rules of Catalist**"), authority be and is hereby given to the Directors of the Company to:

   1. (i) allot and issue shares in the capital of the Company (whether by way of rights, bonus or otherwise); and/or

      (ii) make or grant offers, agreements or options that may or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares (collectively, the "**Instruments**"),

   2. (notwithstanding that the authority conferred by paragraph 1 of this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors while this Resolution was in force,

   at any time and from time to time upon such terms and conditions, whether for cash or otherwise, and for such purposes and to such persons as the Directors may think fit for the benefit of the Company, provided that:

   a. the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed one hundred per cent. (100%) of the total number of issued shares excluding treasury shares of the Company (as calculated in accordance with sub-paragraph b. below), of which the aggregate number of shares to be offered other than on a pro-rata basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty per cent. (50%) of the total number of issued shares excluding treasury shares of the Company (as calculated in accordance with sub-paragraph b. below);

b. for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph a. above, the percentage of the total number of issued shares excluding treasury shares shall be calculated based on the total number of issued shares excluding treasury shares of the Company at the time of the passing of this Resolution, after adjusting for:

(i) new shares arising from the conversion or exercise of any convertible securities;

(ii) new shares arising from exercise of share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Rules of Catalist; and

(iii) any subsequent bonus issue, consolidation or subdivision of shares;

c. in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Rules of Catalist for the time being in force (unless such compliance has been waived by the SGX-ST) and the Bye-laws for the time being of the Company; and

d. unless revoked or varied by the Company in general meeting, the authority conferred by this Resolution shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required to be held, whichever is the earlier, except that the Directors shall be authorised to allot and issue shares pursuant to any Instrument made or granted by the Directors while this Resolution was in force notwithstanding that such authority has ceased to be in force at the time of issue of such shares." [See Explanatory Note (iii)] **(Resolution 6)**

8. "That the Directors of the Company be and are hereby authorised to offer and grant options in accordance with the provisions of the Medtecs Share Option Scheme ("**Scheme**") and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options under the Scheme provided always that the aggregate number of shares to be issued pursuant to the Scheme shall not exceed fifteen per cent. (15%) of the total number of issued shares excluding treasury shares of the Company from time to time." [See Explanatory Note (iv)] **(Resolution 7)**

By Order of the Board

Abdul Jabbar Bin Karam Din
Joint Company Secretary

Singapore, 6 April 2017

Explanatory Notes:

(i) Ms Carol Yang Xiao-Qing, upon re-election as a Director of the Company, will remain as the Chairman of the Nominating Committee and a member of the Remuneration Committee and Audit Committee of the Company. Ms Yang is an Independent Director of the Company.

(ii) Mr Lim Tai Toon, upon re-election as a Director of the Company, will remain as the Chairman of the Audit Committee and a member of the Remuneration Committee and Nominating Committee. Mr Lim is an Independent Director of the Company.

(iii) Ordinary Resolution 6 proposed in item 7. above, if passed, is to empower the Directors to allot and issue shares in the capital of the Company and/or Instruments (as defined above). The aggregate number of shares to be issued pursuant to Resolution 6 (including shares to be issued in pursuance of Instruments made or granted) shall not exceed one hundred per cent. (100%) of the total number of issued shares excluding treasury shares of the Company, with a sub-limit of fifty per cent. (50%) for shares issued other than on a pro-rata basis (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) to shareholders. For the purpose of determining the aggregate number of shares that may be issued, the percentage of the total number of issued shares excluding treasury shares of the Company will be calculated based on the total number of issued shares excluding treasury shares of the Company at the time of the passing of Resolution 6, after adjusting for (i) new shares arising from the conversion or exercise of any convertible securities; (ii) new shares arising from exercise of share options or vesting of share awards outstanding or subsisting at the time of the passing of Resolution 6, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Rules of Catalist; and (iii) any subsequent bonus issue, consolidation or subdivision of shares.

(iv) Ordinary Resolution 7 proposed in item 8. above, if passed, is to authorise the Directors to offer and grant options in accordance with the provisions of the Scheme and to allot and issue shares under the Scheme.

Notes:

1. Save as provided in the Bye-Laws, a member entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. If a shareholder being a Depositor (who is not a natural person) whose name appears in the Depository Register wishes to attend and vote at the Annual General Meeting, then it should complete the Proxy Form and deposit the duly completed Proxy Form at the office of the Singapore Share Transfer Agent, Boardroom Corporate and Advisory Services Pte Ltd, at 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623 at least 48 hours before the time of the Annual General Meeting. A Depositor who is a natural person need not complete the Proxy Form if he/she intends to attend in person.

3. If a Depositor/shareholder wishes to appoint a proxy/proxies, then the Proxy Form must be deposited at the office of the Singapore Share Transfer Agent, Boardroom Corporate and Advisory Services Pte Ltd, at 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623, at least 48 hours before the time of the Annual General Meeting.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

This document has been prepared by the Company and its contents have been reviewed by the Company's sponsor, R&T Corporate Services Pte. Ltd. ("**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("**Exchange**"). The Sponsor has not independently verified the contents of this announcement including the accuracy or completeness of any of the figures used, statements, opinions or other information made or disclosed.

This announcement has not been examined or approved by the Exchange. The Sponsor and the Exchange assume no responsibility for the contents of this announcement including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact persons for the Sponsor are Ms Evelyn Wee (Telephone Number: +65 6232 0724) and Mr. Howard Cheam Heng Haw (Telephone Number: +65 6232 0685), R&T Corporate Services Pte. Ltd., at 9 Battery Road #25-01, Singapore 049910.

Financial Statements

Directors' Report	41
Statement by Directors	48
Independent Auditor's Report	49
Balance Sheets	53
Profit and Loss Accounts	56
Statements of Comprehensive Income	57
Statements of Changes in Equity	58
Consolidated Cash Flow Statement	61
Notes to the Financial Statements	63

Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2016
(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 2016.

1. Directors

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

Clement Yang Ker-Cheng (Chairman and Chief Executive Officer)
Xia Junwei (Deputy Executive Chairman)
Wilfrido Candelaria Rodriguez
Carol Yang Xiao-Qing
Lim Tai Toon
William Yang Weiyuan
Lam Kwong Fai

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

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

Directors' Report (continued)
(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 2016	At 31 December 2016	At 21 January 2017	At 1 January 2016	At 31 December 2016	At 21 January 2017
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 (1 January 2016: 18,506,621 shares), and 14,568,577 shares (1 January 2016: 14,568,577 shares) held by South World Investment Ltd. and Maybank Kim Eng Securities Pte. Ltd., respectively, as at 31 December 2016 and 21 January 2017.

Xia Junwei is deemed to be interested in 81,862,275 shares (1 January 2016: nil) held by DBS Nominee (Private) Limited as at 31 December 2016 and 21 January 2017.

	At 1 January 2016	At 31 December 2016	At 21 January 2017	Exercise price S$	Expiry Date
Options to subscribe 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
(Incorporated in Bermuda)
AND ITS SUBSIDIARIES

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 Singapore Exchange Securities Trading Limited ("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:

Lam Kwong Fai (Chairman)
Carol Yang Xiao-Qing
Clement Yang Ker-Cheng
Lim Tai Toon
Xia Junwei

The aggregate number of ordinary shares subject to outstanding options granted under the Scheme will 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 Financial News or other publication published by the SGX-ST for the 5 consecutive trading days immediately preceding the date of grant; or

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

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

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 shares 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 2016 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
(Incorporated in Bermuda)
AND ITS SUBSIDIARIES

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 2016	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 till 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.

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

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

7. Audit Committee

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

- Reviews the audit plans of internal and external auditors of the Company and review the internal auditors' evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Company's management to the external and internal auditors;
- Reviews the half yearly and annual financial statements and the auditors' report on the annual financial statements of the Group before submission to the Board of Directors (BOD);
- Reviews effectiveness of the Group's material internal controls, including financial, operational and compliance controls, and risk management via reviews carried out by the internal auditors;
- Meets with the external auditors, other committees and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;
- Reviews legal and regulatory matters that they have a material impact on the financial statements, related compliance policies and programmes and any report received from regulator;
- Reviews the cost effectiveness and the independence and objectivity of the external auditors;
- Reviews the nature and extent of non-audit services provided by the external auditors;
- Recommends to the Board of Directors the external auditors to be nominated, approves the compensation of the external auditors and reviews the scope and results of the audit;
- Reports actions and minutes of meetings of the AC to the Board of Directors with such recommendations as the AC considers appropriate; and
- Reviews interested person transactions in accordance with the requirements of the SGX-ST's Listing Manual.

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.

Further details regarding the AC are disclosed in the Report on Corporate Governance.

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

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.

On behalf of the Board of Directors:

CLEMENT YANG KER-CHENG	**WILFRIDO CANDELARIA RODRIGUEZ**
Director	Director

Makati City, Philippines
3 April 2017

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

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 2016 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
3 April 2017

Independent Auditor's Report

For the financial year ended 31 December 2016

To the members of Medtecs International Corporation Limited

Opinion

We have audited the 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 2016, the profit and loss accounts, statements of comprehensive income, statements of changes in equity of the Group and the Company and the consolidated cash flow statements 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 statement of changes in equity of the Company are properly drawn up in accordance with Financial Reporting Standards in Singapore (FRSs) 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 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and 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 judgement, 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 each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated 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.

Inventory valuation

The Group has inventories amounting to USD34.8 million as of 31 December 2016 or about 33% of the total assets of the Group. Judgement is required in assessing the recoverability of the inventories. The Group recognizes a provision for inventory obsolescence when the net realizable values of the inventory become lower than the cost. The provision for inventory obsolescence is also assessed based on the physical condition and marketability of the inventories. The Group's allowance for inventory obsolescence as of 31 December 2016 amounted to USD1.5 million. 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. Disclosure relating to the judgment in recognizing allowance for inventory obsolescence is 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 and calculation 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 reviewed the comparison between the lower of cost and the net realizable value in calculating the amount of the allowance. Also, we attended the inventory counts of the major subsidiaries and observed management procedures in identifying obsolete inventories.

Sale of investment property and inventories

On December 30, 2016, the Group entered into a sale and purchase agreement involving the sale of a specific investment property and inventories for a total consideration of USD2.2 million. The sale transaction under this agreement resulted in a net gain of USD208,000, which is about 13% of the total pretax income of the Group in 2016. Since the net gain from the transaction is material in the consolidated financial statements and the transaction is non-recurring, we consider this a key audit matter. The disclosure relating to the sale transaction is made in the Notes 7 and 20 to the consolidated financial statements.

Audit response
We obtained and reviewed the sale and purchase agreement. We tested management's calculation of the gain recorded in the accounts by tracing the carrying value of the investment property and inventories in the Group's books.

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 FRSs, 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.

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
3 April 2017

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

BALANCE SHEETS

AS AT 31 DECEMBER 2016
(Amounts in United States dollars)

		Group		Company	
		2016	2015	2016	2015
	Note	$'000	$'000	$'000	$'000
Assets					
Non-current assets					
Property, plant and equipment	6	24,410	25,140	59	90
Investment properties	7	3,443	4,068	160	674
Assets held for leasing	8	5,185	5,079	–	–
Investment in subsidiaries	9	–	–	23,642	25,294
Goodwill	10	709	709	–	–
Deferred tax assets	25	13	4	13	4
Other non-current assets	12	4,384	5,051	3,248	3,041
		38,144	40,051	27,122	29,103
Current assets					
Inventories	13	34,749	35,995	87	100
Trade receivables	14	13,811	13,976	9,016	8,305
Other current assets	15	15,434	15,853	10,756	11,812
Due from subsidiaries (trade)	11	–	–	12,210	5,216
Fixed deposits	16	1,919	1,536	–	–
Cash and bank balances	16	1,581	1,887	22	26
		67,494	69,247	32,091	25,459
Total assets		105,638	109,298	59,213	54,562

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

BALANCE SHEETS (continued)

AS AT 31 DECEMBER 2016
(Amounts in United States dollars)

		Group		Company	
		2016	2015	2016	2015
	Note	$'000	$'000	$'000	$'000
Equity and liabilities					
Current liabilities					
Trade payables and other current liabilities	17	9,384	15,228	1,575	1,844
Due to subsidiaries (trade)	11	–	–	34,950	24,141
Term loans (current portion)	18	1,175	2,080	–	2,080
Trust receipts and acceptances payable	18	867	386	–	–
Bank loans	18	29,575	26,583	–	–
Income tax payable		1,677	1,358	18	16
		42,678	45,635	36,543	28,081
Net current assets/(liabilities)		24,816	23,612	(4,452)	(2,622)
Non-current liabilities					
Term loans	18	107	2,181	–	1,939
Pension benefits obligation	21	727	729	175	157
Deferred tax liabilities	25	267	291	–	–
		1,101	3,201	175	2,096
Total liabilities		43,779	48,836	36,718	30,177
Net assets		61,859	60,462	22,495	24,385

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

BALANCE SHEETS (continued)

AS AT 31 DECEMBER 2016
(Amounts in United States dollars)

		Group		Company	
		2016	2015	2016	2015
	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	27,788	26,767	(10,275)	(8,391)
Remeasurement gains/(losses)	21	(14)	(57)	17	23
Foreign currency translation reserves	5	485	149	–	–
Other reserves	5	(167)	(167)	–	–
		60,845	59,445	22,495	24,385
Non-controlling interests		1,014	1,017	–	–
Total equity		61,859	60,462	22,495	24,385
Total equity and liabilities		105,638	109,298	59,213	54,562

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

PROFIT AND LOSS ACCOUNTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(Amounts in United States dollars)

		Group		Company	
		2016	2015	2016	2015
	Note	$'000	$'000	$'000	$'000
Revenue	19	57,596	61,587	7,828	921
Costs of sales and services		(48,344)	(51,717)	(5,972)	(687)
Gross profit		9,252	9,870	1,856	234
Other items of income					
Other income - net	20	893	562	328	37
Financial income	22	5	8	–	–
Other items of expense					
Distribution and selling expenses		(2,450)	(2,666)	(448)	(541)
Administrative expenses		(4,420)	(4,260)	(2,933)	(1,498)
Financial expenses	23	(1,719)	(1,822)	(678)	(624)
Profit/(loss) before tax		1,561	1,692	(1,875)	(2,392)
Income tax expense	25	(542)	(1,161)	(9)	(12)
Net profit/(loss) for the year		1,019	531	(1,884)	(2,404)
Attributable to:					
Equity holders of the Company		1,021	530	(1,884)	(2,404)
Non-controlling interests		(2)	1	–	–
Net profit/(loss) for the year		1,019	531	(1,884)	(2,404)
Earnings/(loss) per share attributable to the equity holders of the Company (cents per share)	26				
- basic		0.186	0.109		
- fully diluted		0.186	0.109		

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 2016
(Amounts in United States dollars)

	Group		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Net profit/(loss) for the year	1,019	531	(1,884)	(2,404)
Other comprehensive income/(loss):				
Items that will be reclassified to profit or loss:				
Translation adjustments	335	(360)	–	–
Items that will not be reclassified to profit or loss:				
Remeasurement loss/(gains)	43	113	(6)	41
Total comprehensive income/(loss)	1,397	284	(1,890)	(2,363)
Attributable to:				
Equity holders of the Company	1,400	283	(1,890)	(2,363)
Non-controlling interests	(3)	1	–	–
Total comprehensive income/(loss)	1,397	284	(1,890)	(2,363)

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 CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(Amounts in United States dollars)

2016 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 2016	27,471	4,721	294	267	(57)	149	26,767	(167)	1,017	60,462
Net profit for the year	–	–	–	–	–	–	1,021	–	(2)	1,019
Other comprehensive income										
Foreign currency translation reserves	–	–	–	–	–	336	–	–	(1)	335
Remeasurementgains	–	–	–	–	43	–	–	–	–	43
Other comprehensive income/(loss) for the year	–	–	–	–	43	336	–	–	(1)	378
Total comprehensive incomefor the year	–	–	–	–	43	336	1,021	–	(3)	1,397
Issuance of capital stock	–	–	–	–	–	–	–	–	–	–
Closing balance at 31 December 2016	27,471	4,721	294	267	(14)	485	27,788	(167)	1,014	61,859

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 CHANGES IN EQUITY (continued)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(Amounts in United States dollars)

2015 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 2015	23,378	4,880	294	267	(170)	509	26,237	(167)	1,016	56,244
Net profit for the year	–	–	–	–	–	–	530	–	1	531
Other comprehensive income										
Foreign currency translation reserves	–	–	–	–	–	(360)	–	–	–	(360)
Remeasurementgains	–	–	–	–	113	–	–	–	–	113
Other comprehensive income/(loss) for the year	–	–	–	–	113	(360)	–	–	–	(247)
Total comprehensive incomefor the year	–	–	–	–	113	(360)	530	–	1	284
Issuance of capital stock	4,093	(159)	–	–	–	–	–	–	–	3,934
Closing balance at 31 December 2015	27,471	4,721	294	267	(57)	149	26,767	(167)	1,017	60,462

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

STATEMENTS OF CHANGES IN EQUITY (continued)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(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	Remeasu-rement gains (losses) (Note 21) $'000	Deficit (Note 5) $'000	Total deficit $'000	Total Equity $'000
Opening balance at 1 January 2015	23,378	4,880	294	267	(18)	(5,987)	(5,444)	22,814
Net loss for the year	–	–	–	–	–	(2,404)	(2,404)	(2,404)
Other comprehensive loss for the year	–	–	–	–	41	–	41	41
Total comprehensive income/(loss) for the year	–	–	–	–	41	(2,404)	(2,363)	(2,363)
Issuance of share capital	4,093	(159)	–	–	–	–	–	3,934
Balance at 31 December 2015 and 1 January 2016	27,471	4,721	294	267	23	(8,391)	(7,807)	24,385
Net loss for the year	–	–	–	–	–	(1,884)	(1,884)	(1,884)
Other comprehensive income for the year	–	–	–	–	(6)	–	(6)	(6)
Total comprehensive income/(loss) for the year	–	–	–	–	(6)	(1,884)	(1,890)	(1890)
Closing balance at 31 December 2016	27,471	4,721	294	267	17	(10,275)	(9,697)	22,495

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(Amounts in United States dollars)

	Note	2016 $'000	2015 $'000
Operating activities			
Profit before tax		1,561	1,692
Adjustments for:			
Depreciation and amortisation	6 and 7	2,917	3,544
Amortisation of assets held for leasing	8 and 24	2,253	1,730
Interest expense	23	1,369	1,456
Provision for inventory obsolescence	13	241	398
Other finance costs	23	283	297
Amortisation of transaction costs	23	67	69
Interest income	22	(5)	(8)
Gain on disposal of investment property	20	(208)	(15)
Impairment loss	6	–	308
Operating cash flows before changes in working capital		8,478	9,471
(Increase)/decrease in:			
Inventories		1,076	176
Trade receivables		291	(1,067)
Other current assets		419	(3,337)
Increase/(decrease) in:			
Pension benefits obligation		41	56
Trade payables and other current liabilities		(5,553)	2,625
Trust receipts and acceptances payable		481	(620)
Cash flows from operations		5,233	7,304
Interest received		5	8
Income taxes paid		(256)	(95)
Other finance cost paid		(283)	(297)
Net cash flows from operating activities		4,699	6,920

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

CONSOLIDATED CASH FLOW STATEMENT (continued)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(Amounts in United States dollars)

	Note	2016 $'000	2015 $'000
Investing activities			
Proceeds from:			
Disposal of investment property		580	251
Disposal of assets held for leasing		12	–
(Increase)/decrease in other non-current assets		667	(3,730)
Purchases of:			
Investment properties	7	–	(4)
Property, plant and equipment	6	(2,087)	(1,054)
Assets held for leasing	8	(2,371)	(2,533)
Net cash flows used in investing activities		(3,199)	(7,070)
Financing activities			
Net proceeds from:			
Issuance of share capital		–	3,934
Short-term bank loans		2,992	1,654
Decrease/(increase) in fixed deposits		(383)	1,280
Interest paid		(1,369)	(1,456)
Net payments of term loans		(3,046)	(4,318)
Net cash flows from (used) in financing activities		(1,806)	1,094
Net increase (decrease) in cash and bank balances		(306)	944
Cash and bank balances at 1 January		1,887	943
Cash and bank balances at 31 December	16	1,581	1,887

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016
(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 9BCountry 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, 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 sheet, 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 (FRS).

The financial statements have been prepared on a historical cost basis except as disclosed in 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 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and the revised standards which are effective for annual periods beginning on or after 1 January 2016. The adoption of these standards did not have any effect on the profit or loss accounts or balance sheets of the Group and the Company:

- Amendments to FRS 27 *Equity Method in Separate Financial Statements*
- Amendments to FRS 16 and FRS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to FRS 16 and FRS 41 *Agriculture: Bearer Plants*
- Amendments to FRS 111 *Accounting for Acquisitions of Interests in Joint Operations*
- Improvements to FRSs (November 2014)
- Amendments to FRS 1 *Disclosure Initiative*
- Amendments to FRS 110, FRS 112 and FRS 28 Investment Entities: *Applying the Consolidation Exception*

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

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

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

2.3 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 FRS 7 Disclosure Initiative	*1 January 2017*
Amendments to FRS 12 Recognition of Deferred Tax Assets for Unrealised Losses	*1 January 2017*
FRS 109 Financial Instruments	*1 January 2018*
FRS 115 Revenue from Contracts with Customers	*1 January 2018*
FRS 116 Leases	*1 January 2019*
Amendments to FRS 110 and FRS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	*Date to be determined*

Except for FRS 109, FRS 115 and FRS 116, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 109, FRS 115 and FRS 116aredescribed below.

<u>FRS 109 *Financial Instruments*</u>

FRS 109 introduces new requirement for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model.

The management is currently assessing the impact of FRS 109 and plans to adopt the new standard on the required effective date.

<u>FRS 115 *Revenue from Contracts with Customers*</u>

FRS 115 establishes a five-step model that will apply to revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in FRS 115 provide a more structured approach to measuring and recognising revenue when the promised goods and services are transferred to the customer i.e. when performance obligations are satisfied.

Key issues for the Company include identifying performance obligations, accounting for contract modifications, applying the constraint to variable consideration, evaluating significant financing components, measuring progress toward satisfaction of a performance obligation, recognising contract cost assets and addressing disclosure requirements.

Either a full or modified retrospective application is required for annual periods beginning on or after 1January 2018 with early adoption permitted. The management is currently assessing the impact of FRS 115 and plans to adopt the new standard on the required effective date.

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

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

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

2.3 Standards issued but not yet effective (continued)

FRS 116 *Leases*

FRS 16 requires leases to recognize most leases on balance sheets to reflect the right to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for leases – leases of "low value" assets and short-term leases. The new standard is effective for annual periods beginning on or after 1 January 2019.

The management is currently assessing the impact of FRS 116 and plans to adopt the new standard on the required effective date.

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.

a) Judgments made in applying accounting policies

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

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) 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 2016 was $3.4 million (2015: $4.1million). More details are given in Note 7.

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

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)

iii) 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.

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 2016were $709,000 (2015: $709,000), $24.4million (2015: $25.1million), $3.4million (2015: $4.1million) and $5.2million (2015: $5.1million), respectively. The carrying amount of the Company's property, plant and equipment as at 31 December 2016was $59,000 (2015: $90,000). More details are given in Notes 6, 7, 8 and 10.

ii) Income taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Differences may arise between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax provisions already recorded. Judgment is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business.

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

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)

b) Key sources of estimation uncertainty (continued)

ii) Income taxes (continued)

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. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax payable as at31 December 2016 was $1.7 million (2015: $1.4 million). The carrying amount of the Company's income tax payable as at 31 December 2016 was $18,000 (2015: $16,000).

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 2016were $13,000 (2015: $4,000) and $267,000 (2015: $291,000), respectively. The carrying amount of the Company's recognised deferred tax assets as at 31 December 2016 were$13,000 (2015: $4,000). More details are given in Note 25.

iv) Impairment of loans and receivables

The Group assesses at the end of the reporting period whether there is any objective evidence that a financial asset is impaired. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. The Group maintains allowances for impairment at a level considered adequate to provide for potential impairment on receivables. The level of this allowance is evaluated by management based on collection experience and other factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers, the customers' payment behavior and known market factors.

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

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)

b) Key sources of estimation uncertainty (continued)

iv) Impairment of loans and receivables (continued)

The amount and timing of recorded expenses for any period would therefore differ depending on the judgments and estimates made for each year. Provision for impairment losses on doubtful trade receivables in 2016 was nil (2015: nil). The carrying amount of the Group's trade receivables, net of allowance for impairment losses on doubtful trade receivables, as at 31 December 2016 was $13.8million (2015: $14.0 million).The carrying amount of the Company's trade receivables, net of allowance for impairment losses on doubtful trade receivables, as at 31 December 2016 was $9.0 million (2015: $8.3million). More details are given in Note 14.

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 2016were $24.4million (2015: $25.1million) and $3.4million (2015: $4.1million), respectively. The carrying amount of the Company's property, plant and equipment as at 31 December 2016was $59,000(2015: $90,000). 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 downto its net realisable value. In addition to a provision for specifically identified obsolete inventory items, estimation is made based on the age of the inventory items. The Group believes such estimates represent a fair charge of the level of inventory obsolescence in a given year. 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 2016was $1.5million (2015: $1.2 million). The Company's allowance for inventory obsolescence as at 31 December 2016wasnil (2015: nil). As at 31 December 2016, the carrying amount of the Group's inventories, net of allowance for inventory obsolescence, was $34.7million (2015: $36.0million). The carrying amount of the Company's inventories, net of allowance for inventory obsolescence, as at 31 December 2016was $87,000 (2015: $100,000). More details are given in Note 13.

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

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)

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 2016was $727,000 (2015: $729,000). The carrying amount of the Company's pension benefits obligation as at 31 December 2016was $175,000(2015: $157,000). 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 2016and 2015was $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.

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.

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

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

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

2.5 Subsidiaries and basis of consolidation (continued)

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.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in 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.

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 FRS.

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

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

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

2.5 Subsidiaries and basis of consolidation (continued)

c) Business combinations and goodwill (continued)

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$.Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by the fluctuation of the US$.

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

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

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

2.7 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.

c) Foreign currency translation

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.

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

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

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

2.7 Functional and foreign currency (continued)

c) Foreign currency translation (continued)

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.

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.

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

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

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

2.9 Property, plant and equipment (continued)

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 equipmentare 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.

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.

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

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

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

2.10 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. 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.

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

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

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

2.11 Intangible assets (continued)

Goodwill (continued)

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.

2.12 Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over the lease term.

2.13 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.

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

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

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

2.13 Impairment of non-financial assets (continued)

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.

2.14 Financial instruments

a) Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The classification depends on the purpose for which the assets were acquired. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

i) Classifications

1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instrument in hedge relationships as defined by FRS39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

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

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

2.14 Financial instruments (continued)

a) Financial assets (continued)

i) Classifications (continued)

1) Financial assets at fair value through profit or loss (continued)

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in the profit and loss accounts. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

As at 31 December 2016and 2015, the Group has no financial assets at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss.

These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss accounts. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

As at 31 December 2016and 2015, the Group has no bifurcated embedded derivatives.

2) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as available-for-sale, or designated at fair value through profit or loss. Loans and receivables are recognised initially at fair value. After initial measurement, receivables are carried at amortised cost, using the effective interest rate method, less impairment losses. Gains and losses are recognised in the profit and loss accounts when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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

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

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

2.14 Financial instruments (continued)

a) Financial assets (continued)

i) Classifications (continued)

2) Loans and receivables(continued)

Loans and receivables are classified as current assets when it is expected to be realised within 12 months after the end of the reporting period or within the normal operating cycle, whichever is longer. The Group classifies the following financial assets as loans and receivables:

- Cash and bank balances and fixed deposits
- Trade and other debtors, including amounts due from an affiliated company and a corporate shareholder

3) Held-to-maturity investments

Quoted non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the assets to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest rate method. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation, using the effective interest rate method of any difference between the initially recognised amount and the maturity amount and minus any reduction for impairment or uncollectibility. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the profit and loss accounts when the investments are derecognised or impaired, as well as through the amortisation process. As at 31 December 2016and 2015, the Group has no held-to-maturity investments.

4) Available-for-sale financial assets

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets 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 that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method 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.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost, less impairment losses. As at 31 December 2016and 2015, the Group has no available-for-sale investments.

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

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

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

2.14 Financial instruments (continued)

a) Financial assets (continued)

ii) Recognition

Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

All regular way purchases and sales of financial assets are recognised on the trade date (i.e., the date that the Group commits to purchase the asset). Regular way purchases are purchases of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

iii) Initial measurement

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each year-end.

iv) Day 1 difference

When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognises the difference between the transaction price and fair value (a “Day 1” difference) in the profit and loss accounts unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognised in the profit and loss accounts when the inputs become observable or when the instrument is derecognised. For each transaction, the Group determines the appropriate method of recognising the Day 1 profit or loss amount.

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

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

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

2.14 Financial instruments (continued)

a) Financial assets (continued)

v) Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The Group transfers the contractual rights to receive the cash flows of the financial assets; or

- The Group retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (a) the consideration received and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in the profit and loss accounts.

b) Financial liabilities

Financial liabilities include trade payables, which are normally settled on 30-90 day terms, other current liabilities, due to subsidiaries (trade), term loans, trust receipts and acceptances payables, bank loans and term loans. Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instruments. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are initially recognised at the fair value of consideration received, plus in the case of financial liabilities not at fair value through profit or loss less directly attributable transactions costs. Gains and losses are recognised in the profit or loss when the liabilities are derecognised, and through amortisation process.

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

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

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

2.14 Financial Instruments (continued)

b) Financial liabilities(continued)

The financial liabilities are derecognised when the obligations under the liabilities are discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss accounts.

Issued financial instruments or their components, which are not designated at fair value through profit or loss are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument, as a whole, the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognised in the profit and loss accounts.

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheets, when and only when, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.15 Impairment of financial assets

The Group assesses at each end of the reporting period whether there is any objective evidence that a financial asset is impaired.

i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

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

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

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

2.15 Impairment of financial assets (continued)

i) Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the profit and loss accounts.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset. to determine whether there is objective evidence that an impairment loss on financial assets has incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the profit and loss accounts.

ii) Financial assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on equity instruments carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

iii) Available-for-sale financial assets

In case of equity investments classified as available-for-sale, objective evidence of impairment include (a) significant financial difficulty of the issuer or obligor, (b) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (c) a significant or prolonged decline in the fair value of the investment below its costs. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

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

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. 15 Impairment of financial assets (continued)

iii) Available-for-sale financial assets(continued)

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit and loss accounts, is transferred from other comprehensive income and recognised in the profit and loss accounts. Reversals of impairment losses in respect of equity instruments are not recognised in the profit and loss accounts; increase in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss accounts. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of the finance income. If in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss accounts, the impairment loss is reversed in the profit and loss accounts.

2.16 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.

2.17 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.

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

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

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

2.18 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 orservice is provided. Initial recognition is based on historical experience. The initialestimate of warranty-related costs is revised annually.

2.19 Government grants

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an income, it is recognised in the profit and loss accounts over the period necessary to match them on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is recognised as deferred capital grant in the balance sheet and is amortised in the profit and loss accounts over the expected useful life of the relevant asset by equal annual installments.

2.20 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.

2.21 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.

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

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

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

2.22 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.

Previously, the Group had convertible bonds whose issue proceeds (including issue costs) were allocated between the liability and equity components and accounted for separately. The allocated value of the liability component includes the discounted cash flows of the convertible bonds ("convertible bonds") plus the fair value on issue date of the embedded call and put options of the issues and the bondholders, respectively. The remainder of the proceeds is allocated to the equity component. The value of the equity component is not changed in subsequent periods.

The equity component is recorded as a capital reserve. As and when the holders of the convertible bonds exercise their conversion rights, the amortised cost of the convertible bond liability will be recognised as equity. If the conversion option is not exercised and lapsed, or the convertible bonds are repaid or retired, the equity component remains in equity.

2.23 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.

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.

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

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

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

2.23 Employee benefits (continued)

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.

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.

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

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

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

2.23 Employee benefits (continued)

c) Employee share option plans(continued)

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 FRS 102 in respect of equity-settled awards and has applied FRS 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. 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.

2.24 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset even if that right is not explicitly specified in an arrangement. A reassessment is made after inception of the lease only if one of the following applies:

a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c) There is a change in the determination of whether fulfillment is dependent on a specific asset; or
d) There is a substantial change to the asset.

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

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

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

2.24 Leases(continued)

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

a) As lessee

Operating lease payments are recognised as an expense in the profit and loss accounts 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

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income (Note 2.26).

2.25 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.

2.26 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable taking into account contractually defined terms of payment and, excluding discounts, rebates and sales taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognised:

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

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

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

2.26 Revenue recognition(continued)

a) Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership of the goods to the customer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

b) Rendering of services

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

Revenues from hospital laundry and rental services are recognised as earned when the services are rendered.

c) Rental income

Rental income arising from operating leases on investment properties isaccounted 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.

2.27 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.

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.

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

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

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

2.27 Taxes (continued)

b) Deferred tax (continued)

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.

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

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

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

2.27 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.

2.28 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.

2.29 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.

2.30 Dividends

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

2.31 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.

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

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

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

2.31 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.

2.32 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.

2.33 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.

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.

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

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

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

2.33 Fair value measurement (continued)

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.

2.34 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	
	2016 $'000	2015 $'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 ordinary shares have no par value. The holders of ordinary shares are entitled to receive dividends as and when declared by the Company and subsequently approved by the shareholders.

In 2015, the Company issued 81,862,275 new ordinary shares at an issue price of S$0.05 per share pursuant to the sale and purchase agreement entered into between the Company and Xia Junwei (Note 9).

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.

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

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

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	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'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	
	2016	2015
	$'000	$'000
Revenue reserves are retained by:		
Company	(10,275)	(8,391)
Subsidiaries	38,063	35,158
	27,778	26,767

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

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

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	
	2016 $'000	2015 $'000
At 1 January	149	509
Net effect of exchange differences arising from translation of financial statements of foreign operations	336	(360)
At 31 December	485	149

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 $267,000as at 31 December 2016(2015: $267,000).

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

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

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 2015	29,281	36,122	1,857	934	1,638	69,832
Additions	188	640	101	–	125	1,054
Reclassifications	(4,412)	640	962	3,126	(316)	–
Disposals	–	(726)	(6)	–	(49)	(781)
Transfers to investment properties (Note 7)	(3,233)	–	–	–	–	(3,233)
Translation adjustments	(400)	(161)	(51)	(1)	(23)	(636)
As at 31 December 2015 and 1 January 2016	21,424	36,515	2,863	4,059	1,375	66,236
Additions	1,600	380	68	38	1	2,087
Reclassifications	–	(6)		–	–	–
Disposals	(36)	(301)	(10)	–	(2)	(350)
Translation adjustments	(63)	2	(7)	–	(3)	(71)
As at 31 December 2016	22,925	36,590	2,914	4,097	1,371	67,903
Accumulated depreciation:						
As at 1 January 2015	10,338	27,459	1,317	914	873	40,901
Depreciation charge for the year	701	2,147	57	345	39	3,289
Impairment loss	–	308	–	–	–	308
Reclassification	(1,867)	(1,212)	1,061	1,977	41	–
Disposals	–	(647)	(4)	–	(49)	(700)
Transfers to investment properties (Note 7)	(2,415)	–	–	–	–	(2,415)
Translation adjustments	(103)	(116)	(47)	(1)	(20)	(287)
As at 31 December 2015 and 1 January 2016	6,654	27,939	2,384	3,235	884	41,096
Depreciation charge for the year	692	1,566	37	323	46	2,664
Reclassification	–			–	–	–
Disposals	–	(212)	(10)	–	(2)	(225)
Translation adjustments	(47)	12	(7)	–	(1)	(43)
As at 31 December 2016	7,299	29,305	2,404	3,558	927	43,493
Net carrying amount:						
As at 31 December 2015	14,770	8,576	479	824	491	25,140
As at 31 December 2016	15,626	7,286	515	539	444	24,410

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

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

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 2015	3,312	3,422	147	83	6,964
Additions	3	1	–	29	33
Reclassifications	127	–	(137)	10	–
Disposals	–	–	–	(49)	(49)
Transfers to investment properties (Note 7)	(3,233)	–	–	–	(3,233)
As at 31 December 2015 and 1 January 2016	209	3,423	10	73	3,715
Additions	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	–	–	–	–	–
As at 31 December 2016	209	3,423	10	73	3,715
Accumulated depreciation: depreciation:					
As at 1 January 2015	2,512	3,387	65	80	6,044
Depreciation charge for the year	13	25	1	6	45
Reclassifications	62	(7)	(63)	8	–
Disposals	–	–	–	(49)	(49)
Transfers to investment properties (Note 7)	(2,415)	–	–	–	(2,415)
Translation Adjustment	–	–	–	–	–
As at 31 December 2015 and 1 January 2016	172	3,405	3	45	3,625
Depreciation charge for the year	14	10	1	6	31
Reclassifications					
Disposals					
Translation Adjustment	–	–	–	–	–
As at 31 December 2016	186	3,415	4	51	3,656
Net carrying amount:					
As at 31 December 2015	37	18	7	28	90
As at 31 December 2016	23	8	6	22	59

As at 31 December 2016, leasehold buildings and certain machinery and equipment with net book value of $5.3million (2015: $21.4million) were mortgaged to secure various foreign and local bank loans as mentioned in Note 18.

As of December 31, 2016, the Group continues to utilize fully depreciated property and equipment with an aggregate acquisition cost amounting to $19.0 million and $21.0 million as of December 31, 2016 and 2015, respectively.

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

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

7. INVESTMENT PROPERTIES

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Cost:				
As at 1 January	8,685	5,448	3,233	–
Additions	–	4	–	–
Transfers from property, plant and equipment (Note 6)	–	3,233	–	3,233
Disposals	(980)	–	(980)	–
As at 31 December	7,705	8,685	2,253	3,233
Accumulated depreciation:				
As at 1 January	4,617	1,947	2,559	–
Transfers from property,plant and equipment (Note 6)	–	2,415	–	2,415
Disposals	(608)	–	(608)	–
Depreciation charge for the year	253	255	142	144
As at 31 December	4,262	4,617	2,093	2,559
Net carrying amount as at 31 December	3,443	4,068	160	674
Profit and loss account:				
Rental income (Note 29)	750	997	750	351
Direct operating expenses	(302)	(761)	(302)	(202)
	448	236	448	149

The Group and Company's investment properties include building and building improvements that are mainly held to earn rentals and capital appreciation. In 2015, transfer was made to investment properties due to change in the use of the building and building improvements that were previously mainly owner-occupied but are currently mainly held to earn rental. 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 the latest valuation, fair market value of the investment properties, which is based on its highest and best use, amounted to $5.3 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.

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

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

7. INVESTMENT PROPERTIES (Continued)

The Company entered into a sale and purchase agreement with a buyer on 30 December 2016. Under the terms of the agreement, the buyer would be acquiring buildings with total area of 20,903 square meters and inventories in their Bataan property. The Company recognised a gain on sale of $208,000. The properties are not a core asset of the Group and would increase efficiency in their Philippine operations.

8. ASSETS HELD FOR LEASING

	Group	
	2016 $'000	2015 $'000
Cost:		
As at 1 January	5,726	5,045
Additions	2,371	2,533
Disposals	(2,050)	(1,852)
As at 31 December	6,047	5,726
Accumulated depreciation:		
As at 1 January	647	614
Amortisation charge for the year	2,253	1,730
Disposals	(2,038)	(1,697)
As at 31 December	862	647
Net carrying amount as at 31 December	5,185	5,079

As of 31 December 2016, fully amortised linens amounting to $38,000 (2015:$2.1 million) were derecognised.

9. INVESTMENT IN SUBSIDIARIES

(a) Investment in subsidiaries comprise:

	Company	
	2016 $'000	2015 $'000
Unquoted equity shares, at cost	25,310	31,706
Additions/(Reductions) in investments	–	(6,396)
Dissolution of a subsidiary	(1,652)	–
Allowance for impairment on investment	(16)	(16)
	23,642	25,294

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

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

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	
			2016 %	2015 %	2016 $'000	2015 $'000
Held by the Company						
Universal Weavers Corporation	Manufacturing and trading of woven and knitted fabrics	Philippines	100.0	100.0	5,863[d]	5,863[d]
Contex Corporation	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	–[e]	–[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

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

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

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	
			2016 %	2015 %	2016 $'000	2015 $'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]
Greenway Teck Corporation	Investment holding	British Virgin Islands	–	100.0	–[f]	1,652
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	–	–
Shanghai Greenway Medical Apparatus Co., Ltd.	Manufacturing and trading of medical consumables	People's Republic of China	–	100.0	–[g]	–
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 [h]	–	–	–
					23,642	25,294

[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] Greenway Teck Corporation has been dissolved in British Virgin Island on 7 December 2016 to consolidate the Group's China operation in Jinchen.

[g] Shanghai Greenway Medical Apparatus Co., Ltd. (Shanghai Greenway) has been deregistered in China on 6 June 2016. The operation of Shanghai Greenway was consolidated in the operation of MSEZ Corp. Ltd., a wholly owned subsidiary of MTC.

[h] A wholly owned subsidiary of MTC incorporated on 29 June 2016.

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

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

10. GOODWILL

	Group	
	2016 $'000	2015 $'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:

	2016 $'000	2015 $'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 2016 for manufacturing segment is 10.62% (2015: 11.04%) and for the hospital services segment is 9.16% (2015: 8.42%) and the forecasted growth rates used to extrapolate cash flows beyond the five-year period in 2016 is 5% (2015: 10%) for manufacturing segment and 5% (2015: 9%) 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.

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

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

10. GOODWILL (continued)

Growth rates

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

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	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Long-term prepaid rent	558	589	–	–
Deposits	3,524	3,379	3,019	3,020
Advances to contractors	–	1,000	–	–
Others	302	83	229	21
	4,384	5,051	3,248	3,041

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

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

12. OTHER NON-CURRENT ASSETS (continued)

Deposits include payment to contractors for the construction of a building in Cambodia subject to liquidation and final turnover once the facility is complete and cash paid for utilities container and others that are to be collected after a year.

Advances to contractors pertain to payments made for purchases of fixed assets as part of the Cambodia expansion.

In 2016, part of the advances were utilised for fixed assets acquisition and working capital requirements.

13. INVENTORIES

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
At cost:				
Raw materials	6,138	6,070	12	12
Work-in-progress	7,372	7,436	13	12
Supplies and spare parts	3,046	3,990	1	1
Goods-in-transit	1,743	664	–	–
At net realizable value:				
Finished goods	16,450	17,835	61	75
Total inventories	34,749	35,995	87	100

The Group recognised provision for inventory obsolescence in the profit and loss accounts in 2016amounting to $241,000(2015: $398,000). The Company recognised provision for inventory obsolescence in the profit and loss accounts in 2016 amounting to nil (2015: nil).

Allowance for inventory obsolescence of the Group for the year ended 31 December 2016is $1.5million(2015: $1.2 million). Allowance for inventory obsolescence of the Company for the year ended 31 December 2016 is nil (2015: nil).

The Group's inventories charged to operations in 2016 were $53.3 million (2015: $48.6 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 2016 amounting to $0.9 million (2015:$0.4 million) (Note 18).

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

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

14. TRADE RECEIVABLES

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Trade receivables				
Manufacturing	12,220	12,507	9,016	8,305
Hospital services	1,204	960	–	–
Trading	512	637	–	–
Less: Allowance for impairment	(125)	(128)	–	–
	13,811	13,976	9,016	8,305

Trade receivables are non-interest bearing and are generally on a 30 to 90 days' term. They are recognised at their original invoice amounts, which represent fair values on initial recognition.

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

	Group	
	2016 $'000	2015 $'000
Philippine peso	272	294
Renminbi	520	1,065
New Taiwan dollar	1,536	1,366
Singapore Dollar	234	–

Receivables that are past due but notimpaired

The Group has trade receivables amounting to $8.7 million (2015: $8.7 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	
	2016 $'000	2015 $'000
Less than 30 days	716	517
30 to 60 days	7,981	8,209
Total	8,697	8,726

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

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

14. TRADE RECEIVABLES (continued)

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*	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Trade receivables - nominal amounts:				
Manufacturing	26	26	278	550
Hospital services	1,047	752	–	–
Trading	512	637	–	–
Less: Allowance for impairment	(50)	(50)	(75)	(78)
	1,535	1,365	203	472

Receivables that are neither past due nor impaired

As at 31 December 2016, trade receivables amounting to $3.1million (2015: $3.5 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.

Movement in allowance accounts:

	Group			
	Collectively impaired		*Individually impaired*	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
As at 1 January	50	51	78	76
Charge for the year	–	–	–	1
Write-off of provision	–	–	(3)	–
Translation	–	(1)	–	1
As at 31 December	50	50	75	78

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

For the financial years ended 31 December 2016 and 31 December 2015, no impairment loss on doubtful trade receivables was recognised in the profit and loss accounts.

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

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

15. OTHER CURRENT ASSETS

	Group		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Advances to suppliers	8,330	6,707	4,870	5,097
Prepayments	449	81	92	23
Advances to employees	20	22	7	10
Input taxes	285	337	7	11
Deposits	3,891	4,044	4,229	4,529
Sundry receivables	2,459	4,662	1,551	2,142
	15,434	15,853	10,756	11,812

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	
	2016	2015
	$'000	$'000
Renminbi	325	617
Philippine peso	594	435
New Taiwan dollar	2,166	366
Singapore Dollar	20	–

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

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

16. CASH AND BANK BALANCES AND FIXED DEPOSITS

Fixed deposits of the Group and of the Company, amounting to $1.9million (2015: $1.5 million) and nil (2015: nil) respectively, are pledged in connection with credit facilities granted by banks. In addition, the withdrawal of such fixed deposits is subject to the banks' approval in connection with overdraft facilities. The fixed deposits are denominated in US$ and earn annual interest of 0.3%(2015:0.4%).

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

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
New Taiwan dollar	3,030	2,191	–	–
Philippine peso	111	278	5	5
Renminbi	167	188	–	–
Singapore dollar	7	–	–	–

17. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Trade payables	5,212	4,364	45	9
Other creditors	398	4,858	459	760
Accrued operating expenses	3,588	5,985	885	1,054
Amounts due to directors (Note 28)	186	21	186	21
	9,384	15,228	1,575	1,844

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

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

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

17. TRADE PAYABLES AND OTHER CURRENT LIABILITIES (continued)

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

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
New Taiwan dollar	3,614	5,090	–	–
Renminbi	227	1,658	–	–
Philippine peso	1,022	1,148	859	859

18. LOANS AND BORROWINGS

	Weighted average effective interest rate (p.a.)	Maturity	Group 2016 $'000	Group 2015 $'000	Company 2016 $'000	Company 2015 $'000
Current:						
Trust receipts and acceptances payable (secured) (Note 13)	4.53%	2017	867	386	–	–
Bank loans:						
- US$ loans						
Secured	4.53%	2017	3,000	1,291	–	–
Unsecured	2.94%	2017	11,328	13,189	–	–
- Renminbi (RMB) loans						
Secured	6.71%	2017	2,233	2,773	–	–
- New Taiwan Dollar (NTD) loans						
Unsecured	3.53%	2017	13,014	9,330	–	–
Total short-term bank loans			29,575	26,583	–	–
Term loans (current portion)			1,175	2,080	–	2,080

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

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

18. LOANS AND BORROWINGS (continued)

	Weighted average effective interest rate (p.a.)	Maturity	Group 2016 $'000	Group 2015 $'000	Company 2016 $'000	Company 2015 $'000
Non-current:						
Term loans:						
- Long-term loan (secured) (Note 6)	3.3%	2016-2018	–	4,080	–	4,079
Less: Deferred transaction costs			–	(62)	–	(62)
			–	4,018	–	4,017
- NTD term loans Unsecured	3.12%	2016-2017	1,282	243	–	2
Total long-term bank loans			1,282	4,261	–	4,019
Due within one year			(1,175)	(2,080)	–	(2,080)
Due after one year			107	2,181	–	1,939
Total loans and borrowings			31,724	31,230	–	4,019

The above borrowings are classified as follows:

	Group 2016 $'000	Group 2015 $'000	Company 2016 $'000	Company 2015 $'000
Secured	6,100	8,468	–	4,017
Unsecured	25,624	22,762	–	2
	31,724	31,230	–	4,019

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 31).

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

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

18. LOANS AND BORROWINGS (continued)

RMB and NTD term loans (current)

These loans are at floating rates and fully payable at various dates in the succeeding year.

Long-term loans

The long-term loans include loans from a German bank and a Taiwanese bank.

(a) The long-term loan from a German bank is carried at amortised cost using the effective interest rate method. The loan is at a floating rate based on LIBOR plus a spread of 295 basis points and is payable in fifteen semi-annual installments of $1.0 million starting 15 December 2010 and is secured by buildings, machineries and equipment in the Philippines and Cambodia (Note 6).

In 2012, the repayment term of the long-term loan from a foreign bank was modified starting 15 June 2012 into quarterly repayments amounting to $500,000 from previous semi-annual payments.

The Company fully paid the long term loan from a German bank on 15December 2016.

In 2016, the financial covenants of the loan contain provisions on maintenance of certain financial ratios summarised as follows:

- Equity ratio should not be less than 35.0%
- Current ratio should not be less than 120.0%
- Debt service coverage ratio should not be less than 130.0%

The Company has complied with the required financial ratios for the financial year ended 31 December 2016.

(b) The long-term loans from Taiwanese banks are carried at amortised cost using the effective interest rate method. The loans are at floating rates and are due in 2018.

Short term loans include a working line with a Philippine bank which is secured by buildings and leasehold improvements.

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

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

19. REVENUE

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Manufacturing	42,796	48,250	7,078	570
Hospital services	11,900	11,251	–	–
Distribution and others	2,900	2,086	750	351
	57,596	61,587	7,828	921

20. OTHER INCOME -NET

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Foreign exchange gain	358	367	102	34
Gain on disposals of investment property	208	15	208	3
Others	327	180	18	–
	893	562	328	37

21. EMPLOYEE BENEFITS

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Personnel expenses				
Wages and salaries	14,723	16,381	1,142	1,127
Pension expense	88	95	22	25
	14,811	16,476	1,164	1,152

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

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

21. EMPLOYEE BENEFITS (continued)

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.

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").

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

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

21. EMPLOYEE BENEFITS (continued)

a) Employee share option plans (continued)

ii) General employees share option scheme (continued)

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	Weighted average exercise price	Number of options	Weighted average exercise price
	2016	2016	2015	2015
	'000	S$	'000	S$
Outstanding at 1 January	2,030	0.09	2,595	0.10
Granted	–	–	–	–
Forfeited	–	–	(565)	(0.13)
Outstanding at 31 December	2,030	0.09	2,030	0.09
Exercisable at 31 December	2,030	0.09	2,030	0.09

There are no options granted in 2016 and 2015.

The exercise price for options outstanding at the end of the year was S$0.094 (2015: S$0.094), the weighted average remaining contractual life of these options is 4.4 years (2015: 4.4 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.

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

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

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 expensewith sufficient regularity such that the amount recorded does not differ materially from the amount to be recorded in compliance with FRS 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, 2016, prepared by an independent actuary, and is determined using the projected unit credit actuarial cost method in accordance with FRS 19.

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

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Current service cost	52	59	14	17
Interest cost	36	36	8	8
Net benefit expense	88	95	22	25

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 2016were$727,000 (2015: $729,000) and $175,000 (2015: $157,000), respectively. The management of the Group is still contemplating on a scheme to fund the pension plan.

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

	Unfunded pension plan			
	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
As at 1 January	729	786	157	181
Current service cost	52	59	14	17
Interest cost	36	36	8	8
Benefits paid	(7)	–	–	–
Translation adjustment	(40)	(39)	(10)	(8)
Net remeasurement loss (gain)	(43)	(113)	6	(41)
As at 31 December	727	729	175	157

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

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

21. EMPLOYEE BENEFITS (continued)

b) Pension plan (continued)

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

	Group		Company	
	2016	2015	2016	2015
Discount rate	5.03% - 5.19%	4.9% - 5.2%	5.19%	5.2%
Salary increase rate	5.0%	5.0%	5.0%	5.0%

The history of experience adjustments are as follows:

	Group				
	2016 $'000	2015 $'000	2014 $'000	2013 $'000	2012 $'000
Unfunded defined benefit obligation	727	729	786	782	599
Change in assumption adjustments on plan liabilities	(3)	(53)	(42)	192	32
Experience adjustments on plan liabilities	(40)	(68)	(45)	(17)	(98)
Change in demographic assumption	–	8	–	–	–

	Company				
	2016 $'000	2015 $'000	2014 $'000	2013 $'000	2012 $'000
Unfunded defined benefit obligation	175	157	181	170	123
Change in assumption adjustments on plan liabilities	–	(14)	(7)	28	3
Experience adjustments on plan liabilities	6	(28)	(7)	12	(98)
Change in demographic assumption	–	1	–	–	–

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

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

21. EMPLOYEE BENEFITS (continued)

b) Pension plan (continued)

A quantitative sensitivity analysis for significant assumption as at 31 December 2016 is as shown below:

Assumptions	Sensitivity Level	Impact on defined benefit obligation Increase (Decrease)
Discount rates	+0.5%	(56)
	-0.5%	61
Future salary increases	+2%	252
	-2%	(184)

The sensitivity analysis above have 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 2016:

	$'000
Within the next 12 months (next annual reporting period)	–
More than 1 year to 5 years	109
More than 5 years to 10 years	173
More than 10 years to 15 years	528
More than 15 years to 20 years	1,639
More than 20 years	3,679
	6,128

The average duration of the defined benefit plan obligation at the end of the reporting period is 18.5 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 2016, the Group has pension benefit expense under defined contribution plan amounting to nil(2015:nil).

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

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

22. FINANCIAL INCOME

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Interest income from:				
- fixed deposits and advances to third parties	5	8	–	–

23. FINANCIAL EXPENSES

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Interest expense on loans to third parties	1,369	1,456	610	548
Amortisation of transaction costs (Note 18)	67	69	67	69
Other finance costs	283	297	1	7
Total financial expenses	1,719	1,822	678	624

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

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

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

24. PROFIT/(LOSS) BEFORE TAX

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

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Inventories recognised as an expense in cost of sales (Note 13)	53,349	48,563	5,168	9
Personnel expenses (Note 21)	14,811	16,476	1,164	1,152
Depreciation and amortization (Notes 6 and 7)	2,977	3,544	173	189
Impairment loss (Note 6)	–	308	–	–
Financial expenses (Note 23)	1,719	1,822	678	624
Amortisation of assets held for leasing (Note 8)	2,253	1,730	–	–
Operating lease expenses (Note 29)	705	1,183	206	217
Auditor remuneration:				
- auditor of the Company, audit services	151	178	41	41
Financial income (Note 22)	(5)	(8)	–	–
Other income - net (Note 20)	(893)	(562)	(328)	(37)

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	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Current	575	1,011	22	16
Deferred income tax:				
Origination and reversal of temporary differences	(33)	150	(13)	(4)
Income tax expense recognised in the profit and loss accounts	542	1,161	9	12

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

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

25. TAXATION (continued)

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 2016 and 2015 are as follows:

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Profit/(loss) before tax	1,561	1,692	(1,874)	(2,392)
Tax on relevant profits/(losses) at the domestic statutory rates applicable in the countries concerned	(7)	647	(54)	(11)
Adjustments:				
Non-deductible expenses	150	268	10	23
Deferred tax assets not recognised	307	204	45	–
Translation adjustment	75	13	8	–
Others	17	29	–	–
Income tax expense recognised in profit and loss accounts	542	1,161	9	12

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	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Accruals	6	55	6	1
Translation adjustments	(2)	(10)	(2)	(3)
Unrealised loss/(gain) on exchange differences	(40)	(52)	3	2
Others	49	11	6	4
	13	4	13	4

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

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

25. TAXATION (continued)

c) Deferred tax assets and liabilities (continued)

As at 31 December 2016, the Group's and the Company's deferred tax liabilities, which arise mainly from exchange differences, amounted to $267,000 (2015: $291,000) and nil (2015: nil), respectively.

As at 31 December 2016 and 2015, no deferred tax assets were recognised for the temporary differences arising from a subsidiary's tax losses 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 2016 and 2015, 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 is 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.

In Taiwan, the alternative minimum tax imposed under the Income Basic Tax Act is a supplemental tax levied at a rate of 12% which is payable if the income tax payable determined pursuant to the Income Tax Law is lower than the minimum amount prescribed under the Income Basic Tax Act.

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.

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

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

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	
	2016 $'000	2015 $'000
Net profit attributable to ordinary equity holders of the Company used in the computation of basic and diluted EPS	1,021	530
	No. of shares '000	No. of shares '000
Weighted average number of ordinary shares applicable to		
- Basic earnings per share	549,411	484,819
- Effect of dilution of share options	–	–
Weighted average number of ordinary shares for diluted EPS	549,411	484,819

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 2016 and 2015, 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.

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

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

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:

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Income:				
Sales to subsidiaries	–	–	–	–
Costs and expenses:				
Management fee (Note 20)	–	–	–	–

The Company has provided a corporate guarantee to various banks for a $5.0 million loan (2015: $1.6 million) (Note 18) taken by a subsidiary.

b) Compensation of key management personnel

	Group	
	2016 $'000	2015 $'000
Directors and executives' remuneration	186	439
Comprise amounts paid to:		
- directors of the Company	186	439

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

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

28. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

b) Compensation of key management personnel (continued)

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 (2015:nil) options were granted to directors and executives of the Company. During the year, nill (2015: 565,000) options granted to two directors were lapsed.

Amounts due to directors, which amounted to $186,000(2015: $21,000), are non-interest bearing and are payable on demand (Note 17).

29. COMMITMENTS AND CONTINGENT LIABILITIES

a) Operating lease commitments - 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 2016, 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 2015 amounted to $750,000(2015: $997,000).

Future minimum rental receivable under the operating lease at the end of the reporting period are as follows:

	Group	
	2016 $'000	2015 $'000
Not later than one year	305	1,024
Later than one year but not later than five years	1,523	4,205
Later than five years	914	7,148
	2,742	12,377

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

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

29. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

b) Operating lease commitments - as lessee

As at 31 December 2016, the Group and the Company have entered into operating lease agreements in respect of office and factory premises. The lease terms do not contain restrictions on the Group's activities concerning dividends, additional debts or further leasing. Operating lease expense recognised in the profit and loss accounts of the Group and the Company for the financial year ended 31December 2016 amounted to $705,000(2015: $1.2 million) and $206,000 (2015: $217,000), respectively.

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Not later than one year	332	310	121	122
Later than one year but not later than five years	1,233	1,305	703	707
Later than five years	9,148	9,383	5,457	5,929
	10,713	10,998	6,281	6,758

c) Contingent liabilities

Contingencies

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.

Guarantees

The Company has provided a corporate guarantee to various banks for a $5.0 million(2015: $1.6 million) loan (Note 18) taken by a subsidiary.

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

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

30. 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.

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.

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

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

30. GROUP SEGMENTAL REPORTING (continued)

(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 2016and 2015.

2016	Manufacturing $'000	Hospital services $'000	Distribution and others $'000	Eliminations $'000	Group $'000
Revenue	57,298	11,900	17,216	(28,818)	57,596
Results	3,394	434	(553)	–	3,275
Financial expenses					(1,719)
Financial income					5
Income tax expense					(542)
Net profit for the year					1,019
Total assets	116,808	11,982	488	(23,640)	105,638
Total liabilities	40,064	3,614	101	–	43,779
Other segment information:					
Capital expenditure	2,287	–	–	–	2,287
Depreciation and amortization	2,984	2,253	–	–	5,237
Provision for inventory obsolescence	241	–	–	–	241
Other non-cash expenses - net	1,647	(205)	(3)	–	1,439

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

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

30. GROUP SEGMENTAL REPORTING (continued)

(a) Business segments (continued)

2015	Manufacturing $'000	Hospital services $'000	Distribution and others $'000	Eliminations $'000	Group $'000
Revenue	55,430	11,251	19,736	(24,830)	61,587
Results	3,694	414	(602)	–	3,506
Financial expenses					(1,822)
Financial income					8
Income tax expense					(1,161)
Net profit for the year					531
Total assets	122,172	11,806	614	(25,294)	109,298
Total liabilities	43,639	5,090	107	–	48,836
Other segment information:					
Capital expenditure	1,059	–	–	–	1,059
Depreciation and amortization	3,037	2,091	169	–	5,297
Impairment loss	308	–	–		308
Provision for inventory obsolescence	398	–	–	–	398
Other non-cash expenses - net	1,745	(12)	(3)	–	1,730

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

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

30. 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 2016and 2015.

2016	USA $'000	Asia Pacific $'000	Europe $'000	Eliminations $'000	Group $'000
Revenue	8,279	56,542	21,593	(28,818)	57,596
Results	471	1,576	1,228	–	3,275
Financial expenses					(1,719)
Financial income					5
Income tax expense					(542)
Net profit for the year					1,019
Total assets	855	126,585	1,838	(23,640)	105,638
Total liabilities	–	43,779	–	–	43,779
Other segment information:					
Capital expenditures	–	2,287	–	–	2,287
Depreciation and amortisation	–	5,237	–	–	5,237
Provision for inventory obsolescence	–	241	–	–	241
Other non-cash expenses - net	–	1,439	–	–	1,439

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

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

30. GROUP SEGMENTAL REPORTING (continued)

(b) Geographical segments (continued)

2015	USA $'000	Asia Pacific $'000	Europe $'000	Eliminations $'000	Group $'000
Revenue	13,955	43,132	29,330	(24,830)	61,587
Results	794	1,043	1,669	–	3,506
Financial expenses					(1,822)
Financial income					8
Income tax expense					(1,161)
Net profit for the year					531
Total assets	1,038	131,276	2,278	(25,294)	109,298
Total liabilities	–	48,836	–	–	48,836
Other segment information:					
Capital expenditures	–	1,059	–	–	1,059
Depreciation and amortisation	–	5,297	–	–	5,297
Impairment loss	–	308	–		308
Provision for inventory obsolescence	–	398	–	–	398
Other non-cash expenses - net	–	1,730	–	–	1,730

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments are cash and bank balances, fixed deposits, bank loans, long-term receivable 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 2.14.

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

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

31. 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 2016, approximately 7% (2015: 12%) 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:

2016 **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	1,919	–	–	–	–	1,919
Bank loans	(4,603)	–	–	–	–	(4,603)
Floating rate						
Cash and bank balances	1,581	–	–	–	–	1,581
Trust receipts and acceptances payable	(867)	–	–	–	–	(867)
Bank loans	(26,147)	(107)	–	–	–	(26,254)

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

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

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

a) Interest rate risk (continued)

2016 **Company**	Within 1 Year $'000	1-2 Years $'000	2-3 years $'000	3-4 years $'000	Over 5 years $'000	Total $'000
Floating rate						
Cash and bank balances	22	–	–	–	–	22
Trust receipts and acceptances payable	–	–	–	–	–	–
Bank loans	–	–	–	–	–	–

2015 **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	1,536	–	–	–	–	1,536
Bank loans	(3,633)	–	–	–	–	(3,633)
Floating rate						
Cash and bank balances	1,887	–	–	–	–	1,887
Trust receipts and acceptances payable	(386)	–	–	–	–	(386)
Bank loans	(25,273)	(1,938)	–	–	–	(27,211)

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

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

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

a) Interest rate risk (continued)

2015 **Company**	Within 1 Year $'000	1-2 Years $'000	2-3 years $'000	3-4 years $'000	Over 5 years $'000	Total $'000
Floating rate						
Cash and bank balances	26	–	–	–	–	26
Trust receipts and acceptances payable	–	–	–	–	–	–
Bank loans	(2,080)	(1,939)	–	–	–	(4,019)

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 $'000
2016				
US$	14	(18)	14	(3)
RMB	14	(4)	–	–
NTD	14	(17)	–	–
US$	(14)	18	(14)	3
RMB	(14)	4	–	–
NTD	(14)	17	–	–
2015				
US$	6	(10)	6	(3)
RMB	6	(2)	–	–
NTD	6	(5)	–	–
US$	(6)	10	(6)	3
RMB	(6)	2	–	–
NTD	(6)	5	–	–

There is no other impact on the Group's and the Company's equity other than those already affecting income.

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

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

31. 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 2016, approximately 99.7% (2015:93.6%) 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:

2016
Group

	Total carrying value $'000	Total $'000	On demand $'000	< 1 year $'000	1 - 5 years $'000	> 5 years $'000
Undiscounted financial assets:						
Cash	1,581	1,581	1,581	–	–	–
Fixed deposits	1,919	1,919	1,919	–	–	–
Trade receivables	13,811	13,811	13,811	–	–	–
Other current assets	2,459	2,459	2,459	–	–	–
Total undiscounted financial assets	19,770	19,770	19,770	–	–	–
Undiscounted financial liabilities:						
Bank loans	29,575	30,628	–	30,628	–	–
Trade payables and other current liabilities	9,294	9,294	9,294	–	–	–
Trust receipts and acceptances payable	867	906	–	906	–	–
Term loans	1,282	1,319	–	1,211	108	–
Total undiscounted financial liabilities	41,018	42,147	9,294	32,745	108	–
Total net undiscounted financial (liabilities)/assets	(21,248)	(22,377)	10,476	(32,745)	(108)	–

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

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

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Liquidity risk (continued)

2016 Company	Total carrying value $'000	Total $'000	On demand $'000	< 1 year $'000	1 - 5 years $'000	> 5 years $'000
Undiscounted financial assets:						
Cash	22	22	22	–	–	–
Fixed deposits	–	–	–	–	–	–
Trade receivables	9,016	9,016	9,016	–	–	–
Other current assets	1,551	1,551	1,551	–	–	–
Due from subsidiaries (trade)	12,210	12,210	12,210	–	–	–
Total undiscounted financial assets	22,799	22,799	22,799	–	–	–
Undiscounted financial liabilities:						
Trade payables and other current liabilities	1,575	1,575	1,575	–	–	–
Due to subsidiaries (trade)	34,950	34,950	34,950	–	–	–
Total undiscounted financial liabilities	36,525	36,525	36,525	–	–	–
Total net undiscounted financial liabilities	(13,726)	(13,726)	(13,726)	–	–	–

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

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

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Liquidity risk (continued)

2015 Group	Total carrying value $'000	Total $'000	On demand $'000	< 1 year $'000	1 - 5 years $'000	> 5 years $'000
Undiscounted financial assets:						
Cash	1,887	1,887	1,887	–	–	–
Fixed deposits	1,536	1,536	1,536	–	–	–
Trade receivables	13,976	13,976	13,976	–	–	–
Other current assets	4,662	4,662	4,662	–	–	–
Total undiscounted financial assets	22,061	22,061	22,061	–	–	–
Undiscounted financial liabilities:						
Bank loans	26,583	27,743	–	27,743	–	–
Trade payables and other current liabilities	15,138	15,138	15,138	–	–	–
Trust receipts and acceptances payable	386	403	–	403	–	–
Term loans	4,261	4,410	–	2,337	2,073	–
Total undiscounted financial liabilities	46,368	47,694	15,138	30,483	2,073	–
Total net undiscounted financial (liabilities)/assets	(24,307)	(25,633)	6,923	(30,483)	(2,073)	–

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

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

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Liquidity risk (continued)

2015 Company	Total carrying value $'000	Total $'000	On demand $'000	< 1 year $'000	1 - 5 years $'000	> 5 years $'000
Undiscounted financial assets:						
Cash	26	26	26	–	–	–
Fixed deposits	–	–	–	–	–	–
Trade receivables	8,305	8,305	8,305	–	–	–
Due from subsidiaries (trade)	5,216	5,216	5,216	–	–	–
Other current assets	2,142	2,142	2,142	–	–	–
Total undiscounted financial assets	15,689	15,689	15,689	–	–	–
Undiscounted financial liabilities:						
Trade payables and other current liabilities	1,844	1,844	1,844	–	–	–
Trust receipts and acceptances payable	–	–	–	–	–	–
Due to subsidiaries (trade)	24,141	24,141	24,141	–	–	–
Term loans	4,019	4,160	–	2,087	2,073	–
Total undiscounted financial liabilities	30,004	30,145	25,985	2,087	2,073	–
Total net undiscounted financial liabilities	(14,315)	(14,456)	(10,296)	(2,087)	(2,073)	–

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.

	2016				2015			
	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	5,003	–	–	5,003	1,562	–	–	1,562

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

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

31. 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 26% (2015: 23%) of the Group's sales are denominated in foreign currencies whilst almost 28% (2015: 30%) 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	
	2016 $'000	2015 $'000
	Effect on loss before tax	Effect on loss before tax
PHP		
Strengthened 5.7% (2015: 5.2%)	3	14
Weakened 5.7% (2015: 5.5%)	(3)	(14)
RMB		
Strengthened 0.7 % (2015: 0.5%)	11	15
Weakened 0.7 % (2015: 0.5%)	(11)	(15)
NTD		
Strengthened 2 % (2015: 5.5%)	(271)	646
Weakened 2 % (2015: 5.5%)	260	(722)

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

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

31. 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.

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 $5.0 million (2015: $1.6 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.

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

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

31. 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			
	2016		2015	
	$'000	% of total	$'000	% of total
By country:				
USA	855	6%	1,038	8%
Europe	1,838	13%	2,278	16%
Asia Pacific	11,118	81%	10,660	76%
	13,811	100%	13,976	100%
By segment:				
Manufacturing	12,119	88%	12,402	89%
Hospital services	1,204	9%	960	7%
Trading	488	3%	614	4%
	13,811	100%	13,976	100%

The Group has no significant concentrations of credit risk, except for 13% (2015: 11%) of trade debts relating to three major customers of the Group. Revenues from these three customers constitute about 42% (2015: 45%) of the Group's turnover.

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

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

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

d) Credit risk (continued)

At the end of the reporting period, approximately:

- $1.7 million (2015: $1.5 million) of the Group's trade receivables were due from three major customers located in the USA and Europe.
- Nil (2015: nil) of the Group's trade and other receivables were due from related parties, while nil(2015: nil) of the Company's trade and other receivables were balances with related parties.

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.

Loans and receivables (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.

32. FINANCIAL INSTRUMENTS

a) Classification

2016 **Group**	Loans and receivables $'000	Non-financial assets $'000	Total $'000
Assets			
Cash and bank balances and fixed deposits	3,500	–	3,500
Trade receivables	13,811	–	13,811
Other current assets	2,459	12,975	15,434
Inventories	–	34,749	34,749
Property, plant and equipment	–	24,410	24,410
Investment property	–	3,443	3,443
Assets held for leasing	–	5,185	5,185
Goodwill	–	709	709
Deferred tax assets	–	13	13
Other non-current assets	–	4,384	4,384
	19,770	85,868	105,638

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

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

32. FINANCIAL INSTRUMENTS (continued)

a) Classification (continued)

2016 Group	Other financial liabilities $'000	Non-financial liabilities $'000	Total $'000
Liabilities			
Bank loans	29,575	–	29,575
Trade payables and other current liabilities	9,294	90	9,384
Trust receipts and acceptances payable	867	–	867
Income tax payable	–	1,677	1,677
Term loans	1,282	–	1,282
Pension benefits obligation	–	727	727
Deferred tax liabilities	–	267	267
	41,018	2,761	43,779

2016 Company	Loans and receivables $'000	Non-financial assets $'000	Total $'000
Assets			
Cash and bank balances and fixed deposits	22	–	22
Trade receivables	9,016	–	9,016
Other current assets	1,551	9,205	10,756
Inventories	–	87	87
Due from subsidiaries (trade)	12,210	–	12,210
Investment in subsidiaries	–	23,642	23,642
Property, plant and equipment	–	59	59
Investment property	–	160	160
Deferred tax assets	–	13	13
Other non-current assets	–	3,248	3,248
	22,799	36,414	59,213

	Loans and receivables $'000	Non-financial liabilities $'000	Total $'000
Liabilities			
Trade payables and other current liabilities	1,575	–	1,575
Income tax payable	–	18	18
Due to subsidiaries (trade)	34,950	–	34,950
Pension benefits obligation	–	175	175
	36,525	193	36,718

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

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

32. FINANCIAL INSTRUMENTS (continued)

a) Classification (continued)

2015 **Group**	Loans and receivables $'000	Non-financial assets $'000	Total $'000
Assets			
Cash and bank balances and fixed deposits	3,423	–	3,423
Trade receivables	13,976	–	13,976
Other current assets	5,128	10,725	15,853
Inventories	–	35,995	35,995
Property, plant and equipment	–	25,140	25,140
Investment property	–	4,068	4,068
Assets held for leasing	–	5,079	5,079
Goodwill	–	709	709
Deferred tax assets	–	4	4
Other non-current assets	–	5,051	5,051
	22,527	86,771	109,298

	Other financial liabilities $'000	Non-financial liabilities $'000	Total $'000
Liabilities			
Bank loans	26,583	–	26,583
Trade payables and other current liabilities	15,138	90	15,228
Trust receipts and acceptances payable	386	–	386
Income tax payable	–	1,358	1,358
Term loans	4,261	–	4,261
Pension benefits obligation	–	729	729
Deferred tax liabilities	–	291	291
	46,368	2,468	48,836

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

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

32. FINANCIAL INSTRUMENTS (continued)

a) Classification (continued)

2015 **Company**	Loans and receivables $'000	Non-financial assets $'000	Total $'000
Assets			
Cash and bank balances and fixed deposits	26	–	26
Trade receivables	8,305	–	8,305
Other current assets	2,142	9,670	11,812
Inventories	–	100	100
Due from subsidiaries (trade)	5,216	–	5,216
Investment in subsidiaries	–	25,294	25,294
Property, plant and equipment	–	90	90
Investment Property	–	674	674
Deferred tax assets	–	4	4
Other non-current assets	–	3,041	3,041
	15,689	38,873	54,562

	Loans and receivables $'000	Non-financial liabilities $'000	Total $'000
Liabilities			
Trade payables and other current liabilities	1,844	–	1,844
Income tax payable	–	16	16
Due to subsidiaries (trade)	24,141	–	24,141
Term loans	4,019	–	4,019
Pension benefits obligation	–	157	157
	30,004	173	30,177

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.

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

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

32. 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	
	2016	2015	2016	2015	2016	2015	2016	2015
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets:								
Other non-current assets	3,524	3,379	3,403	3.242	3,019	3,020	–	2,924
Financial liabilities:								
Long-term loans	1,283	4,262	1,319	4,120	–	4,019	–	3,884

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
• Long-term receivable • 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 2.6% to 6.7% (2015: 2.7% to 4.2%).

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

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

33. 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 2016 and 31 December2015.

As disclosed in Note 18, the Company has financial covenants for a loan from a German bank which contains provisions on maintenance of financial ratios. This requirement has been complied with by the Company for the financial year ended 31 December 2015.

The Company fully paid the long term loan from a German bank on 15December 2016.

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	
	2016 $'000	2015 $'000
Loans and borrowings	31,724	31,230
Trade payables and other current liabilities	9,384	15,228
Less: Cash and bank balances and fixed deposits	(3,500)	(3,423)
	37,608	43,035
Equity attributable to the equity holders of the Company	60,845	59,445
Capital and net debt	98,453	102,480
Gearing ratio	38.2%	42.0%

34. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution by the Board of Directors on 3 April 2017.

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A Leader In Medical Consumables

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