



Medtecs International Corporation Limited

2018 Sustainability Report



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Editorial Policy

This 2018 Sustainability Report summarizes the sustainability practices and performance of the Group for the period of 1 January 2018 to 31 December 2018 ("FY2018"), and is a follow-up to the Group's inaugural 2017 Sustainability Report. This Report has been prepared in accordance with the sustainability reporting requirements of Rules 711A and 711B of Section B: Rules of Catalist of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), as well as the Global Reporting Initiative (GRI) Standards: Core Option.

Board Statement

The Board of Directors is pleased to present Medtecs's 2018 Sustainability Report, which confirms the Group's commitment to sustainability. This commitment is reflected in the Group's sustainable business strategies and objectives that the management have identified after determination and consideration of material environmental, social and governance (ESG) issues. The Board of Directors had approved the material ESG issues and have overseen their management and monitoring by the management.

This Report has been prepared in accordance with the guidelines of the Global Reporting Initiative, which are well-known and credible standards for reporting on environmental, social and governance issues that are most important to our business and stakeholders.

Report Scope

The Report applies to the operations of Medtecs International Corporation Limited and its major consolidated subsidiaries in Cambodia, Taiwan and the Philippines. Our subsidiaries in Singapore, China and Malaysia are not covered in this Report due to the relatively small percentage of revenue they contributed to the Group.

Sustainability Framework

Our Sustainability Framework sets out our sustainability priorities as a Group through to 2020. The Framework is driven by four aspects, namely progressive automation practices, energy-efficient consumption, talent cultivation and supplier management. These four aspects form a multi-disciplinary approach that recognizes corresponding ESG focus areas. Key business units will review their practices, policies, performance and targets in relation to these ESG focus areas in the Sustainability Framework which they identify as relevant to them.

Contact

We welcome your feedback on this Report. For more information or to provide comments, please contact Kepner Su at ksu@unet.net.tw or call +886-2-27392222 ext.2332.

Message from the Chairman

At the end of 2018, the Group submitted our first-ever Sustainability Report for the period commencing 1 January 2017 to 31 December 2017 (the “**2017 Report**”) to the SGX-ST and the Taiwan Stock Exchange. As I mentioned in the 2017 Report, the preparation and putting together of the Report involved management teams from the Group’s various locations to come together for constant dialogues and exchange of ideas about the challenges, advantages and disadvantages, operational strategies and corporate culture of the Group. This will surely lead to measurable operational benefits, and thus effectively enhance the Group’s overall competitiveness.

In this 2018 Sustainability Report, in addition to the material sustainability issues we’d identified for 2017 – Energy, Automation, Employee Training and Workplace Diversity – we have added Supplier Management as a material ESG topic as it has a significant impact on the Group’s bottom line and long-term growth. In response, we have established clearer policies as well as comprehensive operating procedures for the management of suppliers.

On the other hand, we compared the sustainability targets we had set for the 3 materials ESG topics in the 2017 Report with the actual results in 2018, and have therefore adjusted targets and action plans for 2019, which will help the management team conduct better reviews and provide all stakeholders with a better understanding of our sustainability efforts.

Significantly, through the preparation of the Sustainability Reports, we are seeing a higher level of employee engagement with the Group’s sustainability efforts. Our employees have also come to appreciate more about the 17 Sustainable Development Goals (“**SDGs**”) set by the United Nations in 2015 and what these SDGs can achieve. More and more, we are seeing sustainability goals and ESG topics such as environmental protection, diversity and social harmony, as well as corporate governance being considered and discussed across different departments of the Group when executing short-term actions plans or planning long-term strategies.

Going forward, we are facing an ever-changing business environment both internally and externally. We understand that the sustainable development of

the Group will face many challenges. We must continue to use our resources to enhance the Group's human capital, and to embrace a pro-environment attitude in our pursuit of win-win results and a prosperous society. With unwavering resolve, we will slowly but surely realize our vision and mission.

I would like to share the following poem with you as a token of the Group's commitment to sustainability. I thank you in advance for your guidance and support.

Sound of music praising Medtecs's efforts will be
Underway for a new future to be built through
Stakeholder engagement, workflow optimization,
Teamwork, promotion of
Accountability, and environmental protection.
In so doing, Medtecs will create
None other than a circular economy
Aimed at not only minimizing waste
But also making the most of resources so they last as
Long as possible. We will execute our
ESG projects to the best of our ability.



Clement KC Yang

Chairman of MEDTECS International Corporation Limited

1. About Medtecs

1.1 Introduction

Medtecs International Corporation Limited (“**Medtecs**”, together with its subsidiaries, the “**Group**”) is a well-known healthcare products and services provider and a leading manufacturer of medical consumables. We commenced operations in the Philippines in 1989 and have since established a strong presence in the United States, Europe and Asia Pacific. Medtecs was incorporated in Bermuda in 1997 and currently is based in Taipei, Taiwan. We have offices and facilities spanning across Asia – in Taiwan, the Philippines, China and Cambodia, and has no operation save for a representative office in Singapore. Medtecs was listed on the Singapore Dealing and Automated Quotation System (SESDAQ) of the Singapore Exchange Securities Trading Limited on 6 October 1999 and transitioned to Catalist-sponsored regime with R & T Corporate Services Pte. Ltd. on 26 February 2010. Our Taiwan Depository Receipts were listed on the Taiwan Stock Exchange (TWSE) on 13 December 2002.

Medtecs’ 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 workwear apparels, Medtecs maintains manufacturing facilities located in the Philippines, China and Cambodia. 79% of our products are exported to the EU, 13% to the Asia Pacific and 8% to the US. As a hospital services provider, Medtecs 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 (also known as 3L (lease, laundry, logistics) services). Our Hospital Services division in Taiwan generates 90% of the revenue from hospital services while that in the Philippines accounts for 10%.

As at 31 December 2018, the total number of our employees is 4,738. This year, the Group’s revenue was up by 10.5% to US\$68.3 million. Revenue from the Group’s Original Product Manufacturing (OPM) division

increased by 13.8% to US\$52.2 million; revenue from the Hospital Services division grew 4.6% to US\$13.97 million.

Vision, Mission & Values

Vision

Providing world-class medical products, services and protective wear to ensure that every worker returns home safe.

Mission

Providing safe, comfortable and stylish protective clothing and equipment for workers; providing support services with speed and soul to hospitals.

Our values, which comprise the acronym, KUNG FU, and TARPS, are as follows:

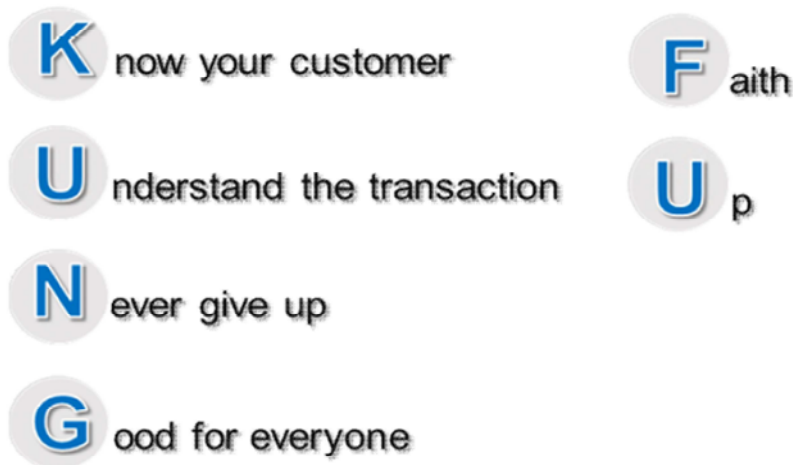
Values

* TARPS will take our company from good to great

- Teamwork
- Accountability
- Reward & Punishment
- Solution-oriented



*KUNG FU will transform us from ordinary to extraordinary



1.2 Recognition

Our high-quality products and services have been recognized with important industry awards and certificates such as ISO 9001, ISO 13485, CE, WCA and TÜV Rheinland Business Information Verification, which confirms our compliance with established workplace standards.

1.2.1 Certification

ISO 9001

The ISO 9001 certification process asked us to evaluate our Quality Management System. It confirms our ability to consistently provide products and services that meet customer and regulatory requirements.

ISO 13485

This confirms our ability in design, development, production, installation

and delivery of medical devices and related services that consistently meet customer and applicable regulatory requirements.

CE

The CE marking shows that our products meet the health, safety, and environmental protection standards of the European Economic Area (EEA).

WCA

The WCA certification is confirmation that our working conditions meet the human rights norms of the international community.

TÜV Rheinland Taiwantrade Supplier Business Information Verification

This verifies the basic business information, operational and management details, production capacity, research & development capacity, business awards & certifications and corporate social responsibility endeavors of Medtecs.

1.2.2 Awards

Champion of the 2018 Alibaba Taiwan Top-Ten B2B E-Commerce Companies Competition

We have actively used e-commerce platforms for more business leads and effective supply chain management in response to the rising dominance of e-commerce. In March 2018, Medtecs won first place in the 4th Alibaba Taiwan Top-Ten B2B E-Commerce Companies Competition.

Top Exporter Award

Medtecs has been operating in the Philippines for over 30 years. Our subsidiary, Universal Weavers Corporation based in Bataan, was recognized as the Top Exporter by the Authority of the Freeport Area of Bataan in 2018 for its contribution to the local export and job market.



Picture1 : Championship Trophy for the 4th
Alibaba Taiwan Top-Ten B2B E-Commerce
Companies



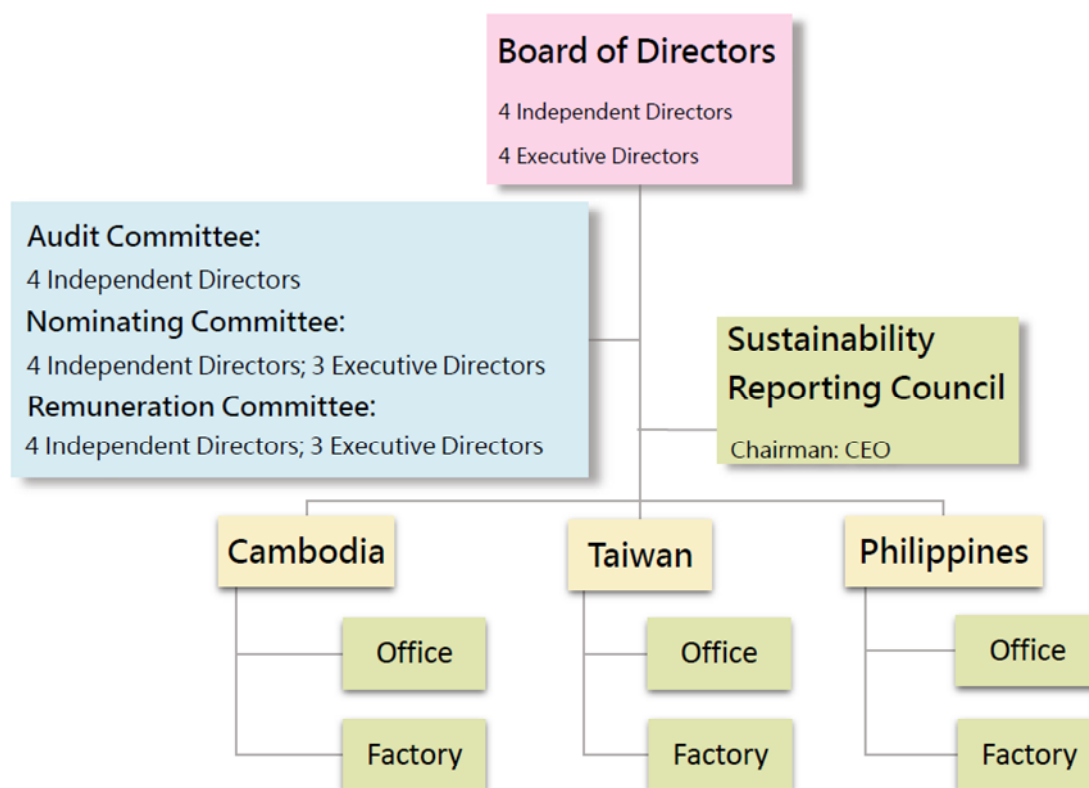
Picture 2 : Top Exporter Award

2. Governance Structure

2.1 Sustainability Governance

The Board of the Group oversees the Group's sustainability reporting framework by monitoring the environmental, social and governance issues that impact the Group's sustainable development. The Group has established sub-committees of the Board, namely the Audit Committee, the Nominating Committee and the Remuneration Committee to assist the Board in the execution of its responsibilities for the protection and enhancement of long-term value and returns for the shareholders and stakeholders.

In 2017, we set up the Sustainability Reporting Council made up of the Planning Department of the Group and senior executives, led by the Group's Chief Executive Officer, which coordinates our sustainability reporting efforts and ensures the Board and the Group's senior management are informed and engaged on ESG matters that influence our business planning, strategy and operations.



2.2 Risk Management

The Group adopts a precautionary approach to financial and business risk management. At our Board meetings, the Board members review and discuss potential business risks and challenges identified by the management team to come up with mitigating action plans. The Audit Committee is responsible for making recommendations to the Board regarding the adequacy and effectiveness of the risk management and internal control systems of the Group. Further details on our management approach to business risks can be found in the Business Outlook and Prospects section (pages 11-13) and the Risk Management and Internal Controls sub-section under the Report on Corporate Governance (page 38) of the 2018 Annual Report. To anticipate and manage risks that may disrupt our business operations, we also plan to review and update our Business Continuity Plan, to be implemented across all business units and operations by the end of 2019, to ensure each business unit has a contingency plan in place in case of natural disasters and emergencies which may negatively affect the Group's business continuity.

3. Sustainable Issues

3.1 Stakeholder Engagement

We engage with different groups of stakeholders on a daily basis due to the unique nature of our business and the fact that we operate in multiple countries. We take these interactions seriously because through stakeholder engagement, we can understand the needs and concerns of those who are essential to our business success as well as sustainable growth. Considering this is only the Group's second Sustainability Report, we decided to cast a wide net for our 2018 stakeholder engagement exercise so as to gather as much feedback as possible from all the stakeholder groups we have identified, hoping that in the process of the engagement, we would be able to also educate, build consensus and gather support for the Group's sustainability initiatives and goals. The table below shows how we have communicated with our stakeholders and what we have heard from them in terms of their concerns and interests.

Table 1: Stakeholder Engagement

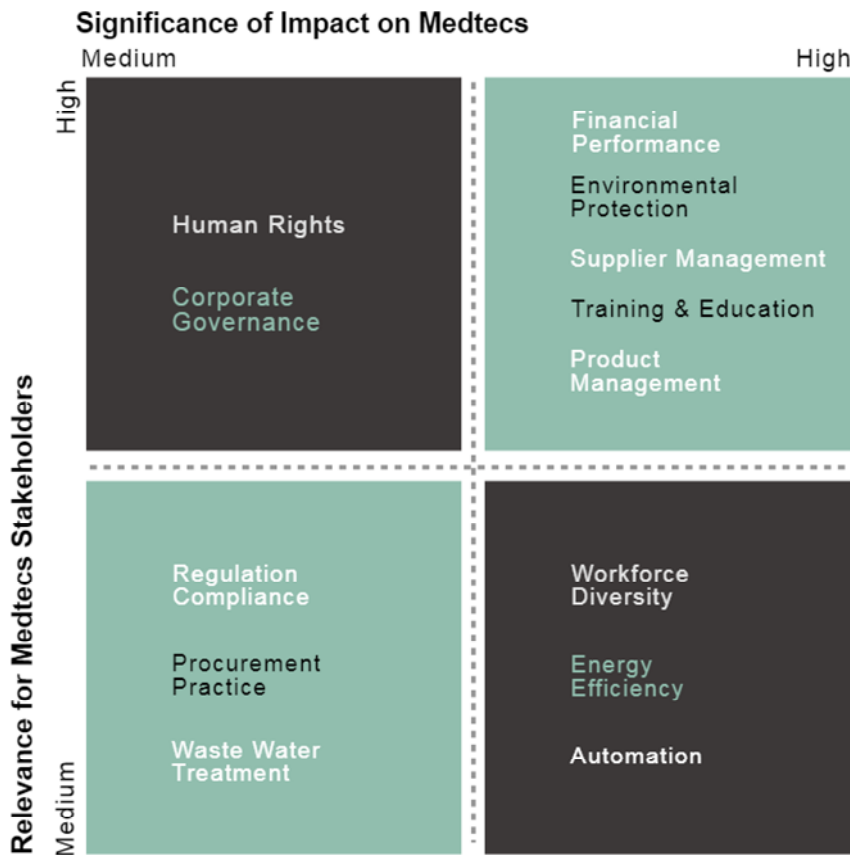
Stakeholder Groups	Engagement Channels	Main Concerns and Interests	How We Have Responded
Shareholders, Institutional and Individual Investors	<ul style="list-style-type: none"> • Annual General Meetings • Public announcements • Investor Relations section on Medtecs.com • Regular corporate publications including quarterly financial statements and annual reports 	<ul style="list-style-type: none"> • Financial performance • Risk management • Sustainable strategy • Energy efficiency • Automation 	<ul style="list-style-type: none"> • Disclosure of financial performance, group strategies and sustainability initiatives in our annual reports and sustainability reports • Implemented equipment upgrade in our factories • Implemented our Business Continuity Plan

Customers	<ul style="list-style-type: none"> • Environmental and social audits commissioned by customers • Customer feedback and surveys • Regular trade shows and exhibitions in different countries • Medtecs.com and our Facebook Fan Page • Regular updates by account managers 	<ul style="list-style-type: none"> • Product management • Innovation • Energy efficiency • Environmental protection 	<ul style="list-style-type: none"> • Obtained relevant industry certification as proof of our ability to provide high-quality products using recognized Quality Management System • Through our sustainability initiatives, specifically identification of energy as a material ESG topic in our sustainability reports.
Employees	<ul style="list-style-type: none"> • Company annual dinner • Bi-weekly Town Hall meetings • Medtecs.com • Annual performance reviews • Monthly staff birthday parties • Facebook Fan Page 	<ul style="list-style-type: none"> • Labor relations • Training and education • Occupational safety • Workforce diversity • Automation 	<ul style="list-style-type: none"> • Provided professional skill enhancement courses and workshops on workplace safety, management of personal health and well-being (see pages 27-28 of this Report for further details) • A Group-wide employee engagement survey to be rolled out in 2019 to better understand interest, concerns and career goals of our employees
Governments and Policy-Makers	<ul style="list-style-type: none"> • Annual report and sustainability report • Compliance filings, disclosures and annual reports • Verbal and written communications on a need base 	<ul style="list-style-type: none"> • Risk management • Corporate governance • Regulatory compliance • Human rights issues 	<ul style="list-style-type: none"> • Disclosure of our corporate governance structure in our annual report • WCA certification
Local	<ul style="list-style-type: none"> • Charities and donations 	<ul style="list-style-type: none"> • Environmental protection 	<ul style="list-style-type: none"> • We donate to various

Communities	<ul style="list-style-type: none"> • Volunteer programs 	<ul style="list-style-type: none"> • Living condition improvement • Employment opportunities 	<p>local charities through our local offices and factories in different countries</p> <ul style="list-style-type: none"> • Please refer to our Corporate Social Responsibility Statement in pages 14-15 of our 2018 Annual Report
Suppliers	<ul style="list-style-type: none"> • Through relationship managers and our procurement team 	<ul style="list-style-type: none"> • Fair and transparent procurement practice 	<ul style="list-style-type: none"> • Formulation and implementation of the Supplier Policy and Procedures (for further details please refer to pages 23-24 of this Report)
Financial Institutions	<ul style="list-style-type: none"> • Meetings • Medtecs.com • Annual reports and quarterly financial statements 	<ul style="list-style-type: none"> • Application of funds • Business performance 	<ul style="list-style-type: none"> • Quarterly financial results announcements • Annual report

3.2 Materiality Assessment

This year we revisited our materiality matrix to ensure our Group strategies and sustainability initiatives and goals remain current, relevant and reflective of the priorities and interests of our stakeholders. From the feedback we gathered via various channels of communication with our stakeholders, we have identified topics which may impact our business and long-term growth and therefore warrant our attention and action. The results are presented in the materiality matrix below.



3.3 Material ESG Topics

We are committed to reviewing our material ESG topics annually for continued relevance and on-going dialogues with external and internal stakeholders to identify emerging concerns or priorities. After considering the list of sustainability topics covered by the GRI Standards, conducting a materiality analysis and taking into account the industry we operate in, we have decided to focus on the following four material ESG topics this year: (i) energy, (ii) automation, (iii) employee training and education, and (iv) supplier management. Out of the four material topics, the first three were those already covered in the 2017 Report. We continue to find them of great impact on our bottom line and on the Group's overall sustainability efforts. We also consider their reporting relevant in this 2018 Report because we are only halfway through our journey towards fulfilling the goals we set for these three topics.

The new material ESG topic is supplier management, which we briefly touched upon in our 2017 Report's Material ESG Topics section, under its broader variant, supply chain management. We have identified supplier

management as part of our targeted effort to tackle the broader issue of supply chain management in 2018. Please refer to the following sections for more detailed discussion of each of these ESG topics.

Energy

One of our core competencies is our network of dispersed production bases. Our customers can hedge against residual risks through our diversification of locations, while enjoying tax breaks and low production costs. The energy costs incurred by the Group's main production bases in Cambodia, the Philippines and Taiwan make up for about 4% of the total operational cost, which has a significant impact on the Group's bottom line, and by extension, our shareholders and employees. Further, energy consumption and global warming are key issues which have prompted multilateral environmental agreements like the Paris Climate Accord and various policies and laws being put in place to regulate carbon emissions, to respond to the governments' call to protect the environment and in compliance with relevant local legal requirements, we must treat the management of our energy consumption as a top priority.

Automation

The impact of automation is two-fold. The Group operates in a labor-intensive industry. As wages in our major production bases such as Cambodia and the Philippines have risen year after year, our labor costs have continued to climb, which has a great impact on our profitability and is of great concern to our shareholders. The solution is to increase our productivity by systematically automate our manufacturing processes. The automation process, however, will inevitably lead to a reduction in number of workers needed to operate machines in our production bases, which is of concern for our employees who may be made redundant as a result of the automation process.

On the other hand, an added benefit of the automation process for external stakeholders is minimization of the negative impact our manufacturing processes has on the local communities and the overall environment through plant performance improvement and reduction of energy used and resources consumed. This will also lead to increased overall equipment effectiveness and reduction in operational and maintenance costs.

Employee training and education and workplace inclusiveness

Our labor costs account for 30% of the total operational costs. Our strength has always been our production capacity that is based in various low-cost countries. However, increasing labor costs in emerging markets such as Cambodia and the Philippines, coupled with an ageing population in Taiwan, are leading to a shortage of labor, which is eroding this competitive edge, and may have a negative impact on the Group's long-term business growth. This may affect our overall profitability. To stay competitive and profitable, we must enhance the quality of our workforce and increase productivity. We must also attract and retain top talent. To that end, we plan to provide more staff training in order to grow our skilled workforce and to have a culture that is inclusive and respectful of the different cultural backgrounds of our employees.

Supplier Management

The costs for materials and trimming account for over 30% of our total operational costs. Raw materials cost accounts for about 70% of the total purchasing costs while trimming cost accounts for the rest. All our raw materials and 95% of trimming are transported by sea. 70% of raw materials and trimming are purchased from China while the rest of them are from Taiwan, Europe and Vietnam respectively, each accounting for 13%, 11% and 6% of our total purchase.

Supplier management is key to the Group's procurement process, operational efficiency, cost reduction scheme, as well as business performance, which can all impact our business growth and the value we can create for our shareholders. On the other hand, we realize that we will be able to push our sustainability efforts upstream and engage our suppliers to be partners in our sustainability initiatives through relationship-building and education. To encourage our suppliers to incorporate sustainable practices and be mindful of their own impacts on the society and the environment, we plan to introduce relevant supplier management policies to help find like-minded suppliers who can be our sustainability partners, and who can provide sustainable products and services at a competitive price.

3.4 Policies and Procedures

Our policies and procedures for the material ESG Topics are set out below:

Energy - Policy

1) We are committed to improving our energy efficiency and reducing our carbon footprint to help address the threat of climate change and to protect the environment.

2) The Group's major production bases are located in Taiwan, Cambodia, the Philippines and on Mainland China. The environmental laws and regulations of these countries have come into effect one after another, putting in place increasingly stricter compliance obligations and related penalties. Protecting the Earth has become such a shared, universal value so that we must implement system-wide measures to improve our energy efficiency.

3) Out of respect for local energy laws and regulations, conditions, equipment, and the production flow, Medtecs (Taiwan), Medtecs (Cambodia) and Medtecs (Philippines) have come up with their own specific plans to improve energy efficiency after assessing each plan's cost-effectiveness.

4) The above plan will be prepared and presented annually by the end of January by the most senior local officer in charge, reviewed by the CEO and approved by Chairman before implementation.

5) The approved plan will then be implemented. During the Implementation stage, the plan will be amended from time to time to cater for internal and external factors and be reviewed and approved per the procedures laid out in step 4) above.

Failure to implement the approved plan without reasonable excuse will lead to negative performance review of the most senior local officer in charge of that particular office.

6) This policy and procedures are reviewed annually by the Group Management Office.

Energy - Procedures

- 1) Working Plan - On or before the end of January every year, each subsidiary will submit its action plan to the Planning Department of the Group Management Office. The plan will be reviewed by the CEO and then submitted for approval by Chairman.
- 2) Approval Process - On or before the end of July every year, each subsidiary will submit its half-year implementation results to the Planning Department of the Group Management Office for reference and review.
- 3) Half-year Performance Review - The whole-year implementation results submitted to the Planning Department of the Group Management Office by the end of January of the following year will be reviewed by the CEO and Chairman.
- 4) Whole-year Performance Review & Public Commendation - Those who have achieved outstanding results for the year will receive public commendation and be rewarded accordingly by the CEO and Chairman.
- 5) Performance Assessment - The Group Management Office is in charge of the assessment of the performance.

Automation - Policy

- 1) We are committed to enhancing and expanding the automation process of our production lines in response to increased labor costs in our production sites.
- 2) The Group operates in a labor-intensive industry. As wages in our major production bases such as Cambodia and the Philippines have risen annually, our labor costs have continued to climb, increasing the cost burden on our operations. In response, we have found it necessary to increase our productivity by systematically automate our manufacturing processes.
- 3) Out of respect for each company's autonomy and in consideration of the employee salary, productivity and varying production characteristics, Medtecs (Taiwan), Medtecs (Cambodia) and Medtecs (Philippines), which

are the Group's top revenue generators, have come up with their own specific plans to accelerate the Group's automation of production lines.

4) The aforementioned plan will be prepared and presented annually by the end of January by the most senior local officer in charge, reviewed by the CEO and approved by Chairman before implementation.

5) The approved plan will then be implemented. During the Implementation stage, the plan will be amended from time to time to cater for internal and external factors and be reviewed and approved per the procedures laid out in step 4) above. Failure to implement the approved plan without reasonable excuses will lead to negative performance review of the most senior local officer in charge of that particular office.

6) This policy and procedures are to be reviewed annually by the Group Management Office.

Automation - Procedures

1) Working Plan - On or before the end of January every year, each subsidiary will submit its action plan to the Planning Department of the Group Management Office. The plan will be reviewed by the CEO and then submitted for approval by Chairman.

2) Approval Process - On or before the end of July every year, each subsidiary will submit its half-year implementation results to the Planning Department of the Group Management Office for reference and review.

3) Half-year Performance Review - The whole-year implementation results submitted to the Planning Department of the Group Management Office by the end of January of the following year will be reviewed by the CEO and Chairman.

4) Whole-year Performance Review & Public Commendation - Those who have achieved outstanding results for the year will receive public commendation and be rewarded accordingly by the CEO and Chairman.

5) Performance Assessment - The Group Management Office is in charge of the assessment of the performance.

Employee Training and Education and Workplace Diversity - Policy

- 1) We work hard to improve our employees' physical and mental health, enhance their professional competence and promote cultural diversity.
- 2) Employees are our most important assets and their quality is key to our success. Since we run a multi-national operation, in order to leverage local talent to create synergy, we must integrate our human resources and aim to build a team that shares the same vision and goals through various training and education. The localization of our management team has been implemented to create synergy.
- 3) Out of respect for each company's autonomy and location, and in consideration of local regulations and characteristics of the employees and businesses, Medtecs (Taiwan), Medtecs (Cambodia) and Medtecs (Philippines), which are the Group's top revenue generators, must come up with their own specific plans for staff training and cultural integration.
- 4) The above plan will be prepared and presented annually by the end of January by the most senior local officer in charge, reviewed by the CEO and approved by Chairman before implementation. The target group, method, frequency, expense, and expected outcomes of the plans are to be determined by the most senior local officer who will conduct the cost-benefit analysis and review the actual needs, and the local conditions of each company.
- 5) The approved plan will then be implemented. During the Implementation stage, the plan will be amended from time to time to cater for internal and external factors and be reviewed and approved per the procedures laid out in step 4) above. Failure to implement the approved plan without reasonable excuse will lead to negative performance review of the most senior local officer in charge of that particular office.
- 6) This policy and procedures are to be reviewed annually by the Group Management Office.

Employee Training and Education and Workplace Diversity - Procedures

- 1) Working Plan - On or before the end of January every year, each subsidiary will submit its action plan to the Planning Department of the Group Management Office. The plan will be reviewed by the CEO and then submitted for approval by Chairman.
- 2) Approval Process - On or before the end of July every year, each subsidiary will submit its half-year implementation results to the Planning Department of the Group Management Office for reference and review.
- 3) Half-year Performance Review - The whole-year implementation results submitted to the Planning Department of the Group Management Office by the end of January of the following year will be reviewed by the CEO and Chairman.
- 4) Whole-year Performance Review & Public Commendation - Those who have achieved outstanding results for the year will receive public commendation and be rewarded accordingly by the CEO and Chairman.
- 5) Performance Assessment - The Group Management Office is in charge of the assessment of the performance.

Supplier Management - Policy

1) Purpose

Medtecs recognizes the importance of supply chain management as part of the group's sustainability efforts, which are aligned with such material ESG topics as environmental protection, social justice and corporate governance. We also understand that proper monitoring and management of our suppliers will lead to effective and responsible procurement practices. To that end, we have put in place Medtecs' Supplier Management Policy to ensure efficiency and improved performance in the Group's procurement process.

2) Supplier selection principle

The Group's selection of suppliers is based on principles of fairness, impartiality and transparency. Our key supplier selection criteria include quality, cost, delivery, sustainability initiatives as well as financial health, which will be looked at together and evaluated in the round.

3) Supplier evaluation & selection

To ensure the quality of the materials, products and services provided, all Medtecs's suppliers must be evaluated and selected according to the above selection criteria, and shall be audited regularly or from time to time for compliance and quality assurance purposes.

Supplier Management - Procedures

1) Supplier Evaluation - New Suppliers

New suppliers will be evaluated against the criteria set out in the "Supplier Evaluation Scorecard" before being approved as qualified suppliers for Medtecs. However, new suppliers with special circumstances can be reported to the CEO for review and approval.

2) Supplier Evaluation - Existing Suppliers

Current suppliers will be evaluated regularly against the standards set out in the "Requirements & Standards for Medtecs Suppliers". We will reduce transactions or suspend dealings with those who do not meet our Requirements and Standards. Suppliers who do not improve within a given time will be disqualified from dealing with Medtecs. However, suppliers with extenuating circumstances will be reported to the CEO, who will review on a case-by-case basis and decide whether to make an exception.

3) Supplier Evaluation - Key Factors

The Supplier Evaluation Scorecard shall be created by the Group's Procurement Department. In addition to financial situations, quality of products/services, lead time, pricing, and flexibility in accommodating our requests, a supplier's sustainability efforts in environmental and labor protection, social welfare and corporate governance, and its relevant

sustainability certifications will receive positive treatment and be given additional weight in the overall evaluation.

4) On-Going Supplier Evaluation & Monitoring

The Supplier Evaluation Scorecard shall be updated by the Procurement Department as often as needed for better monitoring of the Group's suppliers, and the key selection criteria are to be amended and updated regularly on a needs basis as determined by the Procurement Department.

5) Preparation of Qualified Supplier Report

The Procurement Manager is responsible for presenting a "Qualified Supplier Report" at the end of each year, which shall be prepared according to the Supplier Evaluation Scorecard and after internal discussion within the Procurement Department. The Report will be reviewed by the CEO for approval and be referred to by the Procurement teams in subsequent dealings and procurement activities.

6) Supplier Management Operating Procedures

The Procurement Department shall put forward additional Supplier Management Operating Procedures for other related matters not covered here.

4. Sustainable Performance

To tackle the four material ESG topics identified above, we have mobilized the top management at all our operating bases to implement action plans according to our sustainability development goals. At the end of the year, we will conduct a full-year review of the performances and results of the action plans so as to come up with plans for the next year. Below you will find results for 2018 and plans for the coming years.

Please also refer to the table at the end of this section for performances and targets for the four material ESG topics.

4.1 Automation

Our automation project mainly entailed two aspects: equipment upgrades and system optimization. We have purchased and installed 262 sets of various types of production equipment in the Philippines, Cambodia and Taiwan factories. From FY2017 to FY2020, the total number of upgraded sets of equipment for the Group is 1,050. In 2018, we completed 25% of the planned upgrade, with 26% of the upgrade to be completed in 2019. After the upgrade in FY2018, the operations consumed 20% less electricity. We installed a set of suspension systems to optimize operations in the Cambodia factories, leading to a 30% increase in efficiency. In 2019, we plan to purchase 7 sets of equipment for the Philippine factories, as well as high-efficiency automatic laundry equipment for the laundry plant in Taiwan, which will reduce water and energy consumption, as well as 3 sets of suspension systems for the Cambodia factories, which represents 37.5% of the total sets we have planned to install, namely 8. These equipment upgrades and system optimization plans will ultimately lead to savings in our labor costs, system maintenance expenses as well as more environmentally friendly manufacturing processes.



Picture 3 : Suspension systems in Cambodia enhance production efficiency



Picture 4 : Bright LED lights are more energy-efficient

4.2 Energy Efficiency

In our Taiwan factory, we have reduced coal consumption by refurbishing the boilers. It has reduced the factory's environmental impact and saved costs by 3%. In our Cambodia factory, we installed LED lights in place of

traditional ones (saving power by 70%). The replacement of traditional lights with LEDs is the Group's long-term plan. At the end of 2017, 3,000 units have been replaced, which represents 75% of the total 4,000 units planned to be replaced. In 2018, 210 units were replaced according to the timetable, representing 80% completion of the plan. In addition, we installed energy-efficient motors to reduce power consumption by 15% this year.

On the other hand, in line with the Taiwan government's active promotion of renewable energy technologies, we entered into an agreement with an energy company in August 2018 to install solar panels on the roof of the Xiang Shan Factory to begin power generation by the end of the year. We provided no capital for this project. The roof of the Factory has been reinforced and enhanced. Moreover, pursuant to the agreement, we are entitled to a fixed portion of the sales revenue of the generated solar power monthly, which makes the project both eco-friendly and cost-effective.

In 2019, we will continue to pursue boiler fuel options that are environmentally-friendly and cost-effective. We plan to increase the proportion of LED lights in Cambodia factories from 80% to 88%, according to the timetable for phased replacement of all fluorescent light tubes with LED lightings. We are committed to replacing all traditional lighting with LEDs in the Cambodia factories by 2020. In addition, we will collect cooling water and reuse it to reduce water consumption by 20% in the dyeing process carried out in the Philippine factory.

4.3 Training and Education

Medtecs operates in the medical textile industry and has nearly 5,000 employees. By country, employees in Cambodia and the Philippines, which are our main manufacturing bases, make up 71% and 17%, respectively, of our total workforce, while Taiwan and China each account for 10% and 1%. By gender, women represent 79% while men represent 21% of the total workforce. Most of our employees are ground-level, with only 1% in the top-level management position, of which women represent 47% and men 53%. This is testament to Medtecs' commitment to gender equality.

The total number of permanent female employees is 3,641 while the number of male employees is 913. We have a total number of 90 contract employees who are female, and 94 who are male. In Cambodia we have 3,354 permanent employees and only one contract employee. In Taiwan, we have 488 permanent employees and 4 contract employees. In the Philippines, we have 646 permanent and 177 contract employees on the payroll. In China, we have a much smaller number of 66 permanent and 2 contract employees.

In 2018, the Group's employee education & training fell into the following 5 major categories:

- *Physical and mental health (including employee health check-ups and various types of company-sponsored social events);
- *Occupational safety (including environmental safety, fire drills and first aid training);
- *General competency (including work-related courses and net-working events);
- *Professional competency (enhancement of management and professional skills); and
- *Cultural integration (alignment of the Group's vision and mission, establishment of work and corporate culture, and localization of our management).

We offer employees such training opportunities as internal workshops, external trainings and seminars, as well as visits to other companies. Ground-level staff, middle- and top-management teams are all required to participate in these trainings based on their needs and schedule. In 2018, a total of 3,100 employees participated in these company-sponsored trainings, with a combined training hour of 12,400. In 2019, we will continue to offer training opportunities in these 5 categories. To support our business operations plan and workplace optimization measures (such as the 5S approach), we will focus on team-building and promotion of our corporate culture. In response to the Group's plan to incorporate a customer relationship management (CRM) system and enterprise resource planning (ERP) system in 2019, we will introduce relevant training courses for these 2 systems in 2019.

According to our timetable, the overall number of training participants will reach 3,200 in 2019, and the combined training hours will have a 2% increase from 2018.



Picture 5 : Colleagues took marketing courses



Picture 6 : Promoting corporate culture



Picture 7 : Colleagues attended management courses



Picture 8 : Medtecs as an exhibitor at an international trade show

4.4 Supplier Management

The quality of the Group's suppliers not only impacts our bottom line but also our sustainability efforts on such ESG topics as environmental protection and fair labor practice.

This year we have identified supplier management as an additional material ESG topic, and we have put in place the Medtecs' Supplier Management Policy and various supplier evaluation procedures to ensure efficiency and performance by the Group's suppliers which will in

turn encourage their own sustainable practices and engagement with relevant ESG topics.

We are fully aware that long-term relationship-building will lead to good cooperation with suppliers, and that change does not happen overnight. Starting in 2018 we have engaged our suppliers in dialogue about the Group's sustainability efforts, so that many of them have begun to appreciate our commitment to sustainability and to the management of relevant ESG topics.

Looking ahead, we plan to include more suppliers that are supportive of and likewise committed to our sustainability efforts. Our plan for FY2019 is to ensure that at least 3% of our total purchase is from this kind of like-minded suppliers.

Table 2: Summary of Material ESG Topics, Results & 2019-2020 Goals

Category	FY 2017	FY 2018		FY 2019	FY 2020
	Performance	Target	Performance	Target	Target
Automation					
Equipment Upgrade (set)	253	262	262	262	273
System Optimization – Installation of Automatic Infrared Device (set)*	1	Completed	Completed	Completed	Completed
– Installation of Suspension System (%)	0	12.5	12.5	37.5	50
Energy Efficiency					
Reduction in Energy Consumption after Boiler Maintenance (%)	3	5	7	7	6.5

Category	FY 2017	FY 2018		FY 2019	FY 2020
	Performance	Target	Performance	Target	Target
Upgrade to LED Lights (Number of LED Tubes Installed) (%)	3,000 (75)	3,210 (80)	3,210 (80)	3,510 (88)	4,000 (100)
Training and Education Provided***					
Relating to Physical and Mental Health (hours)	N/A**	790	792	800	780
Relating to Occupational Safety (hours)	N/A**	2,700	2,714	2,800	2,780
Relating to General Competency (hours)	N/A**	590	590	700	680
Relating to Professional Competency (hours)	N/A**	7,900	7,964	8,200	8,180
Relating to Cultural Integration (hours)	N/A**	340	340	500	480
Supplier Management					
Supplier Management Optimization	N/A**	Formulation and introduction of relevant Supplier Policy and Procedures	Relevant Supplier Policy and Procedures were put in place	Full implementation of the Supplier Policy and Procedures	Review and revision of the Supplier Policy and Procedures if necessary
Increase in Number of Brand Name Suppliers	N/A**	17	17	7	9
Increase in Total Purchase from Like-Minded Suppliers (%)	N/A**	N/A**	N/A**	3	5

*This optimization was completed in 2017 in line with actual operational requirements. As the scope of this Report is for FY2018, the results of 2017 are listed for comparison. The 2019 Report will only include 2018 results, showing that the optimization was concluded then.

**Either the relevant entry was not applicable or the data was not available.

***For 2018, we have only the aggregate number of training hours for each of the Group's offices and production sites. We will record, track and analyze each employee's participation in such corporate training sessions and workshops to provide better disclosure in our next sustainability report.

GRI Content Index

GRI Standards Reference	GRI-G4 Reference	Description	Section Reference	Page Reference/ Response
GRI 102	G4-1	Statement from senior decision-maker	Message from the Chairman	3
GRI 102	G4-2	Key impacts, risks, and opportunities	Sustainability Issues - Material ESG Topics	14-16
GRI 102	G4-3	Name of the organization	About Medtecs	5
GRI 102	G4-4	Activities, brands, products, and services	About Medtecs	5
GRI 102	G4-5	Location of headquarters	About Medtecs	5
GRI 102	G4-6	Location of operations	About Medtecs	5
GRI 102	G4-7	Ownership and legal form	About Medtecs Please also refer to Note 1 (<i>Corporate Information</i>) of the Notes to the Group's Financial Statements for FY2018 in our Annual Report FY2018.	5 74 of our Annual Report FY2018
GRI 102	G4-8	Markets served	About Medtecs	5

GRI Standards Reference	GRI-G4 Reference	Description	Section Reference	Page Reference/ Response
GRI 102	G4-9	Scale of the organization	About Medtecs	5
GRI 102	G4-10	Information on employees and other workers	Sustainable Performance – Training and Education	25-27
GRI 102	G4-11	Collective bargaining agreements	-	441 employees (who are located in the Philippines), representing 9% of the total number of our employees, have entered into collective bargaining agreements.
GRI 102	G4-12	Supply chain	Material ESG Topics - Supplier Management	16
GRI 102	G4-13	Significant changes to the organization and its supply chain	-	There were no significant changes to the organization and our supply chain during this reporting period.
GRI 102	G4-14	Precautionary Principle or approach	Governance Structure - Risk Management	10
GRI 102	G4-15	External initiatives	Please refer to our “Corporate Social Responsibility Statement” in our Annual Report FY2018	14 to 15 of our Annual Report FY2018
GRI 102	G4-16	Membership of	• The Chinese International	-

GRI Standards Reference	GRI-G4 Reference	Description	Section Reference	Page Reference/ Response
		associations	Economic Cooperation Association <ul style="list-style-type: none"> • Taiwan Technical Textiles Association • Taipei Textiles Association • Taipei Medical Instruments Commercial Association 	
GRI 102	G4-17	Entities included in the consolidated financial statements	Editorial Policy	2 As mentioned in the section “Editorial Policy”, this report applies to the operations of Medtecs and its major consolidated subsidiaries in Cambodia, Taiwan and the Philippines. Our other subsidiaries in Singapore, China and Malaysia are not covered in this report due to the relatively small percentage of revenue they contributed to the Group. For the entities included in the Group’s

GRI Standards Reference	GRI-G4 Reference	Description	Section Reference	Page Reference/ Response
				Financial Statements for FY2018, please refer to Note 9 (<i>Investment in Subsidiaries</i>) of the Notes to the Group's Financial Statements for FY2018 in our Annual Report FY2018 (pages 111-113).
GRI 102	G4-18	Defining report content and topic Boundaries	Editorial Policy Message from the Chairman Governance Structure - Sustainability Governance Sustainable Issues - Materiality Assessment Sustainable Issues - Material ESG Topics	2, 3, 9-10, 13-16
GRI 102	G4-19	List of material topics	Sustainable Issues - Material ESG Topics	14-16
GRI 103	G4-20	Explanation of the material topic and its Boundary	Sustainable Issues - Material ESG Topics	14-16
GRI 103	G4-21	Explanation of the material topic and its Boundary	Sustainable Issues - Material ESG Topics	14-16
GRI 102	G4-22	Restatements of information	-	Not applicable as there are no restatements.

GRI Standards Reference	GRI-G4 Reference	Description	Section Reference	Page Reference/ Response
GRI 102	G4-23	Changes in reporting	Sustainable Issues – Material ESG Topics Sustainable Performance – Supplier Management	14-16, 27-30 There is one additional ESG topic on supplier management identified for 2018, as compared to 2017.
GRI 102	G4-24	List of stakeholder groups	Sustainable Issues - Stakeholder Engagement	11-13
GRI 102	G4-25	Identifying and selecting stakeholders	Sustainable Issues - Stakeholder Engagement	11-13
GRI 102	G4-26	Approach to stakeholder engagement	Sustainable Issues - Stakeholder Engagement	11-13
GRI 102	G4-27	Key topics and concerns raised	Sustainable Issues - Stakeholder Engagement	11-13
GRI 102	G4-28	Reporting period	Editorial Policy	2
GRI 102	G4-29	Date of most recent report	Message from the Chairman	3 31 December 2017
GRI 102	G4-30	Reporting cycle	Annual	-
GRI 102	G4-31	Contact point for questions regarding the report	Editorial Policy	2
GRI 102	G4-32	a. Claims of reporting in accordance with the GRI Standards b. GRI content index	Items a-b: GRI Content Index; Item c: We have not sought external assurances.	30-36

GRI Standards Reference	GRI-G4 Reference	Description	Section Reference	Page Reference/ Response
		c. External assurance		
G4-33	G4-33	External assurance	-	We have not sought external assurances for this Report, and will consider seeking external assurance for future reporting periods.
G4-34	G4-34	Governance structure	Governance Structure - Sustainability Governance	9-10
G4-56	G4-56	Values, principles, standards, and norms of behavior	About Medtecs	6-7

Specific Standard Disclosures

GRI Standards Reference	GRI-G4 Reference	Description	Section Reference	Page Reference/ Response
GRI 302	G4-EN6	Reduction of energy consumption	Sustainable Performance – Energy Efficiency	24-25, 28-29
GRI 404	G4-LA9	Average hours of training per year per employee	Sustainable Performance	For 2018, we have only the aggregate number of training hours for each of the Group's offices and production sites.

				<p>(see page 30). We will record, track and analyze each employee's participation in such corporate training sessions and workshops to provide better disclosure in our next sustainability report.</p>
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