CHINA MEDICAL (INTERNATIONAL) GROUP LIMITED

(Company Registration No. 200505118M)

DISCLAIMER OF OPINION BY INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS FOR FINANCIAL PERIOD ENDED 31 DECEMBER 2016

In compliance with Rule 704(4) of the Listing Manual – Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited, the board of directors (the "**Board**" of the "**Directors**") of China Medical (International) Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to announce that its Independent Auditor, Nexia TS Public Accounting Corporation, has issued its Independent Auditor's Report for the financial statements of the Group for the financial year ended 31 December 2016 (the "**Independent Auditors Report**") and the Independent Auditors Report contains a disclaimer of opinion in respect of:

(a) the Group's ability to continue as a going concern;

(b) the impairment of goodwill; and

(c) recoverability of certain advances and/or loans

as set out in the audited financial statements of the Group for the financial year ended 31 December 2016 (the "**Audited Financial Statements**").

A copy of the aforesaid Independent Auditors' Report as well an extract of Notes 4, 13 and 17 to the Audited Financial Statements relating to the matters which the disclaimer of opinion is in respect of are annexed to this announcement for further information.

Notwithstanding the disclaimer of opinion in the Independent Auditors Report, the Board is of the opinion that the Group will continue as a going concern, the impairment of goodwill is appropriate and the advances and/or loans are recoverable for the following reasons:

Going concern

(a) one of the Company's substantial shareholders, Dato Dr Choo Yeow Ming, (the "**Substantial Shareholder**") has provided a letter of financial support expressing his willingness to provide continuing financial support upon terms and conditions agreeable to both parties to enable the Group to operate and meet their financial obligations and commitments as and when they fall due for the next 12 months till 7 April 2018. He had also provided written confirmation not to demand repayment of borrowings of S$1,000,000 and S$200,000 owing by the Group to him and payables of S$3,500,000 owing by the Group to a former shareholder of the Company's subsidiary corporation (which he is a director and has 55% equity interests in), until the date when the Group has the financial ability to make repayment or their respective contractual maturity dates on 5 March 2020, 2 February 2018 and 6 November 2019;

(b) on 2 February 2017, the Substantial Shareholder advanced an interest free loan of S$200,000 to the Company for general working capital purposes. This loan is repayable in 12 months after the date of disbursement;

(c) on 7 March 2017, the Company entered into four separate share subscription agreements pursuant to which the subscribers agreed to subscribe for 200,000,000 shares at an issue price of S$0.0072. The proceeds of S$1.44 million have been received by the Company and will be utilised for general working capital and business expansion purposes (please refer to the SGXNET announcements dated 8 March 2017, 10 March 2017 and 5 April 2017);

(d) CMIC Hemodialysis (Hong Kong) Limited has entered into a second supplementary agreement with a third party, Concorde Global Limited to extend the maturity date of the HK$ 20 million loan from 28 March 2017 to 27 June 2017. The loan is secured by a corporate guarantee granted by the Company and a deed of guarantee granted by the Substantial Shareholder (please refer to the SGXNET announcements dated 20 June 2016, 13 December 2016 and 29 March 2017); and

(e) the Company is in the process of arranging a renounceable non-underwritten rights issue of up to, 10,109,888,721 new shares at an issue price of S$0.001 on the basis of three rights shares for every one existing share. The Company expects to receive net proceeds of up to S$9.99 million on a maximum subscription basis, assuming all convertible securities of the Company are converted and/or exercised as at the books closure date and all entitled shareholders subscribe in full for their rights entitlement (please refer to the SGXNET announcement dated 31 March 2017).

Please refer to extracted Note 4 to the Audited Financial Statements for further information.

Impairment of goodwill

In arriving at the impairment loss on goodwill, Management determined budgeted gross margins based on expectations of market developments. The weighted average growth rates used were consistent with forecasts based on current market and economic conditions and past performance. The discount rates used were pre-tax and reflected specific risks relating to the relevant segments. The impairment arises as a result of the carrying amount of the goodwill exceeding the recoverable amount of the Group’s cash generating unit (“**CGU**”) which was affected by the economic and political conditions and more stringent regulatory frameworks in the locations of the CGU’s operations.

Please refer to extracted Note 17 to the Audited Financial Statements for further information.

Recoverability of advances and/or loans

Of the advances and/or loans provided of S$5,575,000 to its business partners:

(a) the Group made an allowance of impairment for the advances and/or loans to our business partner for approximately S$2,323,000 as the Board of Directors has assessed their recoverability and is of the opinion that the desired return on investments would take much longer than envisaged and are now evaluating the Group’s funding and financing options in discussion with various stakeholders;

(b) the Group decided to write off the advances and/or loans for approximately S$2,166,000 as the Board of Directors is concerned with the current progress and business outlook as proposed by its business partners. Thus, the Board of Directors believes these previously spent and capitalized advances and/or loans to the Group’s business partners have to be written off.

Of the amount of S$1,086,000 provided to a business partner, the Board has determined that an impairment allowance in the carrying amount of this advance and/or loan it is not required as a personal guarantee from the business partner has been obtained and the Group has entered into a consultancy agreement with the business partner’s investment vehicle pursuant to which the Group will be entitled to be paid fixed annual consultancy fees .The Group is contemplating and negotiating in taking a minority equity stake in this investment vehicle.

Please refer to extracted Note 13 to the Audited Financial Statements for further information.

The Board (i) is of the opinion that sufficient information has been disclosed for trading of the Company's securities to continue in an orderly manner; and (ii) confirmed that all material disclosures have been provided for trading of the Company's shares to continue.

The Independent Auditors' Report and a complete set of the Audited Financial Statements will also be found in the Company's Annual Report 2016 ("**FY2016 Annual Report**"), which will be released on SGXNET and despatched to shareholders in due course. Shareholders of the Company are advised to read this announcement in conjunction with the FY2016 Annual Report.

BY ORDER OF THE BOARD
7 April 2017

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*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**") for compliance with the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist. The Sponsor has not verified the contents of this announcement.*

This announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this announcement, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr Lance Tan, Director, Continuing Sponsorship, at 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318, telephone (65) 6229 8088.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA MEDICAL (INTERNATIONAL) GROUP LIMITED

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the accompanying financial statements of China Medical (International) Group Limited (the "Company") and its subsidiary corporations (the "Group"), which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 12 to 82.

We do not express an opinion on the accompanying financial statements of the Group and the Company. Because of the significance of the matters described in the Bases for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Bases for Disclaimer of Opinion

<u>**Going Concern**</u>

The following circumstances give rise to material uncertainties as to the appropriateness of the use of the going concern assumption in the preparation of the accompanying financial statements of the Group and the Company for the current financial year:

a) As disclosed in Note 4 to the financial statements, the Group and the Company incurred a net loss of S$19,436,000 (2015: SS$1,309,000) and S$15,652,000 (2015: S$2,841,000) respectively and the Group also incurred net operating cash outflows of S$12,512,000 (2015: net operating cash inflows of S$1,861,000) for the financial year ended 31 December 2016. As at 31 December 2016, the Group's current liabilities exceeded its current assets by S$919,000 (2015: S$276,000).

b) As at 31 December 2016, the Group had a borrowing owing to a non-related party amounting to S$3,730,000 (2015: S$ Nil) of which the maturity date of repayment had been extended from 19 December 2016 to 28 March 2017 and subsequently to 27 June 2017. As at 31 December 2016, the Group's cash and cash equivalents (excluding bank deposits pledged) were S$1,525,000 (2015: S$2,019,000).

c) Based on financial budgets approved by the Board of Directors of the Company, the Company is expecting to incur net operating cash outflows of approximately S$4,242,000 (after the receipts of S$1,440,000 from the issuance of 200,000,000 new ordinary shares in paragraph (ii) below) if it remains at its current operating level in the next twelve months from the balance sheet date.

The above conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's and the Company's abilities to continue as going concerns. Nevertheless, the Board of Directors of the Company believes that the use of the going concern assumption in the preparation of the financial statements for the financial year ended 31 December 2016 is appropriate after taking into consideration the following assumptions and measures:

i) On 2 February 2017, a substantial shareholder (referred hereafter as the "Substantial Shareholder") has provided an interest-free loan of S$200,000 to the Company for its working capital purpose. This loan is repayable on 2 February 2018.

ii) On 7 March 2017, the Company has entered into four separate share subscription agreements pursuant to which the subscribers agreed to subscribe for 200,000,000 new ordinary shares in the issued and paid-up capital of the Company at an issue price of S$0.0072 per subscription share. The proceeds of S$1,440,000 have been received by the Company as at the date of this report.

Bases for Disclaimer of Opinion (Cont'd)

Going Concern (Cont'd)

iii) The Substantial Shareholder has provided a letter of financial support expressing his willingness to provide continuing financial support upon terms and conditions agreeable to both parties to enable the Group to continue to operate and meet its financial obligations and commitments as and when they fall due for the next 12 months till 7 April 2018. He had also provided a written confirmation not to demand repayment of borrowings of S$1,000,000 and S$200,000 owing by the Group to him and payables of S$3,500,000 owing by the Group to a former shareholder of the Company's subsidiary corporation (which he is a director and has 55% equity interests in), until the date when the Group has the financial ability to make the repayment or their respective contractual maturity dates on 5 March 2020, 2 February 2018 and 6 November 2019.

iv) The Group has negotiated with a non-related party who provided a borrowing amounting to S$3,730,000 to extend the maturity date of repayment. The maturity date has been extended to 27 June 2017. This borrowing is secured by a corporate guarantee granted by the Company and by a personal guarantee from the Substantial Shareholder.

v) On 31 March 2017, the Company announced that the Company is proposing to undertake a Renounceable Non-Underwritten Rights Issue of up to 10,109,888,721 new Ordinary Shares at an issue price of S$0.001 on the basis of three Rights Shares for every one existing held Ordinary Share. The Company is expected to receive net proceeds of up to S$9,900,000 on a maximum subscription basis, assuming all convertible securities of the Company are converted and/or exercised as at the books closure date and all entitled shareholders subscribe in full for their rights entitlement.

If the Group and the Company are unable to continue in operational existence in the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group and the Company may have to reclassify non-current assets and liabilities to current assets and liabilities respectively. The financial statements do not include any adjustment which may arise from these uncertainties.

The ability of the Group and of the Company to continue in operational existence in the foreseeable future and to meet their financial obligations as and when they fall due are dependent upon the outcome of the assumptions and measures undertaken as disclosed above. At the date of this report, we are unable to obtain sufficient audit evidence regarding the likely outcome of these assumptions and measures including the financial capability of the Substantial Shareholder. It is also uncertain whether the Group and the Company will receive additional financing from its directors and/or other shareholders.

The conditions above indicate the existence of material uncertainties which may cast significant doubt on the Group's and the Company's abilities to continue as going concerns and therefore, the Group and the Company may not be able to discharge their liabilities in the normal course of business. Therefore, we are not able to form an opinion as to whether the going concern basis of presentation of the accompanying financial statements of the Group and the Company is appropriate.

Bases for Disclaimer of Opinion (Cont'd)

Impairment of goodwill

As at 31 December 2016, goodwill was carried at S$7,192,000 (net of impairment loss on goodwill of S$10,805,000), which represents 61.3% of the Group's total assets. The goodwill arose from the acquisition of 51% paid up capital of China iMyth Company Pte. Ltd., which was completed on 6 November 2015 and is allocated to the Group's Aesthetic cash-generating unit ("CGU") in the Republic of China, Taiwan and the People's Republic of China. Refer to Note 17 to the financial statements.

Management applied value-in-use ("VIU") method based on discounted cash flow projection to determine the recoverable amount of the Aesthetic CGU. An impairment loss on goodwill of S$10,805,000 (2015: S$ Nil) was recognised during the financial year ended 31 December 2016.

We are unable to determine whether the impairment loss provided on the goodwill is appropriate as we are unable to obtain sufficient appropriate audit evidence with respect to the underlying key estimates and assumptions used in the discounted cash flows projection, including the reasonableness and achievability of forecasted revenue, operational performance, operational targets, prevailing and future market conditions or business outlook. Coupled with the regulatory guidelines and framework governing the medical industry, especially on aesthetic practices and foreign medical practitioners, we are unable to satisfy ourselves whether the above mentioned discounted cash flow projection would reasonably reflect future events and the set of macroeconomics conditions that will exist and the resultant impairment loss that should be further accounted for, if any, on the carrying amount of the goodwill of S$7,192,000 as at the balance sheet date. As a result of the above, we are unable to determine the adjustments, if any, to be made to these financial statements.

Recoverability of Advances and/or Loans

As at 31 December 2016, the advances and/or loans extended to business partners amounted to S$5,575,000 (2015: S$ Nil) and represented 34% (2015: Nil %) of the Group's total assets. Refer to Note 13 to the financial statements. An impairment loss and a write-off on advances and/or loans of S$2,323,000 (2015: S$ Nil) and S$2,166,000 (2015: S$ Nil) respectively were recognised during the financial year ended 31 December 2016.

Management assesses, at the end of the financial year, whether there is any evidence that the advances and/or loans to business partners for the purpose of setting up new aesthetic businesses or acquisition of an equity interest in an existing business are impaired.

As at the date of this report, we are unable to obtain sufficient appropriate audit evidence to determine whether the carrying amount of the advances and/or loans provided to a business partner which amounted to S$1,086,000 (2015: S$ Nil) is appropriate and whether any impairment allowance in the carrying amount of the advances and/or loans is required as at the balance sheet date. We are unable to perform any other alternative audit procedures to satisfy ourselves with respect to the recoverable amount and the resultant impairment loss, if any, on the carrying amount of the advances and/or loans at the balance sheet date. As a result of the above, we are unable to determine the adjustments, if any, to be made to these financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA MEDICAL (INTERNATIONAL) GROUP LIMITED (cont'd)

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("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 responsibility is to conduct an audit of the Group's financial statements in accordance with Singapore Standards of Auditing and to issue an auditor's report. However, because of the matters described in the Bases for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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.

Report on Other Legal and Regulatory Requirements

In our opinion, except for those matters described in the Bases for Disclaimer of Opinion section of our report, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement director on the audit resulting in this independent auditor's report is Ms. Loh Hui Nee.

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants

Singapore
7 April 2017

4. Going concern

The following circumstances give rise to material uncertainties as to the appropriateness of the use of the going concern assumption in the preparation of the accompanying financial statements of the Group and the Company for the current financial year:

a) The Group and the Company incurred a net loss of S$19,436,000 (2015: SS$1,309,000) and S$15,652,000 (2015: S$2,841,000) respectively and the Group also incurred net operating cash outflows of S$12,512,000 (2015: net operating cash inflows of S$1,861,000) for the financial year ended 31 December 2016. As at 31 December 2016, the Group's current liabilities exceeded its current assets by S$919,000 (2015: S$276,000).

b) As at 31 December 2016, the Group had a borrowing owing to a non-related party amounting to S$3,730,000 (2015: S$ Nil) of which the maturity date of repayment had been extended from 19 December 2016 to 28 March 2017 and subsequently to 27 June 2017. As at 31 December 2016, the Group's cash and cash equivalents (excluding bank deposits pledged) were S$1,525,000 (2015: S$2,019,000).

c) Based on financial budgets approved by the Board of Directors of the Company, the Company is expecting to incur net operating cash outflows of approximately S$4,242,000 (after the receipts of S$1,440,000 from the issuance of 200,000,000 new ordinary shares in paragraph (ii) below) if it remains at its current operating level in the next twelve months from the balance sheet date.

The above conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's and the Company's abilities to continue as going concerns. Nevertheless, the Board of Directors of the Company believes that the use of the going concern assumption in the preparation of the financial statements for the financial year ended 31 December 2016 is appropriate after taking into consideration the following assumptions and measures:

i) On 2 February 2017, a substantial shareholder (referred hereafter as the "Substantial Shareholder") has provided an interest-free loan of S$200,000 to the Company for its working capital purpose. This loan is repayable on 2 February 2018.

ii) On 7 March 2017, the Company has entered into four separate share subscription agreements pursuant to which the subscribers agreed to subscribe for 200,000,000 new ordinary shares in the issued and paid-up capital of the Company at an issue price of S$0.0072 per subscription share. The proceeds of S$1,440,000 have been received by the Company as at the date of this report.

4. Going concern (cont'd)

iii) The Substantial Shareholder has provided a letter of financial support expressing his willingness to provide continuing financial support upon terms and conditions agreeable to both parties to enable the Group to continue to operate and meet its financial obligations and commitments as and when they fall due for the next 12 months till 7 April 2018. He had also provided a written confirmation not to demand repayment of borrowings of S$1,000,000 and S$200,000 owing by the Group to him and payables of S$3,500,000 owing by the Group to a former shareholder of the Company's subsidiary corporation (which he is a director and has 55% equity interests in), until the date when the Group has the financial ability to make the repayment or their respective contractual maturity dates on 5 March 2020, 2 February 2018 and 6 November 2019.

iv) The Group has negotiated with a non-related party who provided a borrowing amounting to S$3,730,000 to extend the maturity date of repayment. The maturity date has been extended to 27 June 2017. This borrowing is secured by a corporate guarantee granted by the Company and by a personal guarantee from the Substantial Shareholder.

v) On 31 March 2017, the Company announced that the Company is proposing to undertake a Renounceable Non-Underwritten Rights Issue of up to 10,109,888,721 new Ordinary Shares at an issue price of S$0.001 on the basis of three Rights Shares for every one existing held Ordinary Share. The Company is expected to receive net proceeds of up to S$9,900,000 on a maximum subscription basis, assuming all convertible securities of the Company are converted and/or exercised as at the books closure date and all entitled shareholders subscribe in full for their rights entitlement.

If the Group and the Company are unable to continue in operational existence in the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group and the Company may have to reclassify non-current assets and liabilities to current assets and liabilities respectively. The financial statements do not include any adjustment which may arise from these uncertainties.

13. Trade and other receivables

	Group		Company	
	2016	2015	**2016**	2015
	S$'000	S$'000	**S$'000**	S$'000
Trade receivables				
- Non-related parties	**180**	486	**-**	-
Less :Allowance for impairment of trade receivables – non-related parties (Note 25(b)(ii))	**(56)**	-	**-**	-
Trade receivables - net	**124**	486	**-**	-
Other receivables				
- Subsidiary corporation	**-**	-	**1,640**	45
- Related parties	**2,447**	-	**1,109**	-
- Non-related parties	**3,396**	271	**519**	21
Less :Allowance for impairment of other receivables – subsidiary corporation and non-related parties (Note 25(b)(ii))	**(4,489)**	-	**(2,432)**	-
Other receivables – net	**1,354**	271	**836**	66
Deposits	**57**	24	**44**	-
Prepayments	**35**	17	**13**	13
	1,570	798	**893**	79

The other receivables due from a subsidiary corporation and related parties are non-trade, unsecured, interest-free and repayable on demand.

During the financial year, the Group entered into collaboration agreements with a few business partners. The Group is obliged to finance the initial expenditures ("advances and/or loans"), such as marketing costs, rental costs and staff costs in setting up new businesses relating to aesthetic medical clinics, management of renal hospital, rendering of platelet-rich plasma and hemodialysis services in the People's Republic of China. To safeguard its interests, the Group had entered into loan agreements with all these business partners to enable the Group to have the right to recover these advances and/or loans from the business partners on demand.

13. Trade and other receivables (cont'd)

Of the advances and/or loans provided of S$5,575,000 to its business partners: (a) the Group made an allowance of impairment for the advances and/or loans to its business partners for approximately S$2,323,000 as the Board of Directors has assessed their recoverability and is of the opinion that the desired return on investments would take much longer than envisage and are now evaluating the Group's funding and financing options in discussion with various stakeholders; (b) the Group decided to write off the advances and/or loans for approximately S$2,166,000 as the Board of Directors is concerned with the current progress and business outlook as proposed by its business partners . Thus, the Board of Directors believes these previously spent and capitalized advances and/or loans to our business partners have to be written off.

Of the amount of S$1,086,000 provided to a business partner, the Board has determined that an impairment allowance in the carrying amount of this advance and/or loan it is not required as a personal guarantee from the business partner has been obtained and the Group has entered into a consultancy agreement with the business partner's investment vehicle pursuant to which the Group will be entitled to be paid fixed annual consultancy fees .The Group is contemplating and negotiating in taking a minority equity stake in this investment vehicle.

17. Intangible assets

	Group 2016 S$'000	2015 S$'000 (Restated)
Composition:		
Goodwill arising on consolidation (Note(a))	**7,192**	17,997
Customer relationships (Note(b))	**104**	155
	7,296	18,152

(a) Goodwill arising on consolidation

	Group 2016 S$'000	2015 S$'000 (Restated)
Cost		
Beginning of financial year	**17,997**	-
Acquisition of subsidiary corporations (Note 28(c))	**-**	17,997
End of financial year	**17,997**	17,997
Accumulated impairment		
Beginning of financial year	**-**	-
Impairment loss during the financial year (Note 7)	**10,805**	-
End of financial year	**10,805**	-
Net book value	**7,192**	17,997

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") identified according to countries of operation and business segment.

	Aesthetic medical 2016 S$'000	2015 S$'000 (Restated)
Republic of China, Taiwan and People's Republic of China	**7,192**	17,997

The recoverable amount of the CGU was determined based on value-in-use. Cash flow projections used in the value-in-use calculations were based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using the estimated growth rates stated below. The growth rate did not exceed the long-term average growth rate for the business in which the CGU operates.

17. Intangible assets (cont'd)

(a) Goodwill arising on consolidation (cont'd)

Key assumptions used for value-in-use calculations:

	Group 2016 %	Group 2015 %
Gross margin[1]	**61.2**	69.9
Growth rate[2]	**63.4**	78.9
Discount rate[3]	**22.0**	23.0

1 Budgeted gross margin
2 Compound average growth rate
3 Pre-tax discount rate applied to the pre-tax cash flow projections

Management determined budgeted gross margin based on expectations of market developments. The weighted average growth rates used were consistent with forecasts based on current market and economic conditions and past performance. The discount rates used were pre-tax and reflected specific risks relating to the relevant segments. Although the budgeted gross margin and compound average growth rate did not vary as compared to 2015, the market penetration rate in those locations of the CGU's operations is expected to decrease significantly in 2016 following the economic and political conditions and their regulatory frameworks.

An impairment charge of S$10,805,000 (2015: S$Nil) was included within "Administrative expenses" in the statement of comprehensive income. The impairment arise as a result of the carrying amount of the goodwill exceeding the recoverable amount of the CGU which was affected by the economic and political conditions and more stringent regulatory frameworks in the locations of the CGU's operations.

The goodwill recognised on the balance sheet is attributable to the CGU in the Republic of China, Taiwan and the People's Republic of China. Based on the impairment test of the CGU as at 31 December 2016, the estimated recoverable amount of the CGU is S$7,192,000 (2015:S$17,997,000).

(b) Customer relationships

	Group	
	2016 S$'000	2015 S$'000 (Restated)
Cost		
Beginning of financial year	**155**	-
Acquisition of subsidiary corporations (Note 28(c))	**-**	155
End of financial year	**155**	155
Accumulated amortisation		
Beginning of financial year	**-**	-
Amortisation charge (Note 7)	**51**	-
End of financial year	**51**	-
Net book value	**104**	155