



Annual Report 2008

MEDTECS INTERNATIONAL
CORPORATION LIMITED

美德醫療集團 '08 年報

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Corporate Profile



Medtecs International Corporation Limited (“Medtecs”) is an integrated healthcare products and services provider in Asia Pacific, and a leading manufacturer and distributor of medical consumables for the global healthcare industry. Started in the Philippines in 1989, the Medtecs Group has over the years established a strong presence in the United States, Europe and the Asia Pacific region. Today, the Group has offices in Singapore, Hong Kong, Taiwan, the Philippines, Cambodia and People’s Republic of China (“China”).

Medtecs is an original product manufacturer (“OPM”) of a wide range of medical consumables for large multinational healthcare distributors, pharmaceutical companies and hospital groups in the United States and Europe. Major product groups manufactured by the Group include linen, hospital apparel, hospitality apparel, work wear apparel and bandages. The Group’s OPM is supported by 10 manufacturing facilities strategically located in low-cost centres - 4 in the Philippines, 4 in China, and one each in Cambodia and Taiwan. These fully integrated facilities are equipped with the latest manufacturing equipment and technology to meet the diverse requirements specified by customers.

In Taiwan, the Group is today the largest total solutions provider for hospital services following the acquisition of hospital services companies in 2000. Services provided include hospital linen rental & laundry, management of hospital laundry facilities, hospital automation and other non-core hospital functions. It currently services 27 hospitals with 13.6% of the total hospital beds in Taiwan (equivalent to 42% of the outsourcing market in Taiwan). The Group has also successfully expanded its hospital services in the Philippines.

We are an integrated healthcare product and services provider in the Asia Pacific region, and a leading manufacturer and distributor of medical consumables for the global healthcare industry.

Leveraging on its strength as an OPM of medical consumables, the Group also distributes “MEDTECS” branded medical consumables to end customers in the Asia Pacific. Some of the medical consumables made by Medtecs include:

- Anti-static surgical attire
- Sterilised Procedure Tray (SPT) products
- Underpads, adult diapers
- Patient apparel
- Flame-retardant fabrics
- Surgical drapes
- Medical bandages
- Disposable surgical masks, boot covers and surgical gowns
- Crochet blankets and bed linens
- Other medical supplies

Medtecs also acts as an agent to distribute other branded medical devices in the Asia Pacific, including medical supplies and equipment such as:

- Wheel chairs
- Syringes
- Gauzes
- Digital thermometers
- Nebulizers
- Blood pressure monitors
- Other medical supplies

Medtecs is actively engaged in research and development of a wide range of innovative medical products. The Group’s continuous effort in product research and development enables it to roll out new products for its OPM customers on a regular basis as well as products for the home medical care market.

Medtecs was listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”) on 6 October 1999. The Group’s Taiwan Depository Receipts (“TDR”) were listed on the Taiwan Stock Exchange on 13 December 2002.



Corporate Milestones



1989

Incorporated Clement Textile & International Corporation in the Philippines to manufacture patient apparels and disposable consumables.

1997

Incorporated MEDTECS International Corporation Limited, a holding company in Bermuda, as an exempted company limited by shares.

1991

Incorporated Medtex Corporation to manufacture and sell medical bandages.

1998

Marketed "MEDTECS" brand for selected products distributed in the Asia Pacific region.

1994

Incorporated Universal Weavers Corporation to manufacture woven medical blankets and linens.

1999

Incorporated MEDTECS (Asia Pacific) Pte. Ltd as a regional marketing and distribution centre in Singapore.

MEDTECS International Corporation Limited was successfully listed on the SGX-SESDAQ.

Incorporated MEDTECS (Cambodia) Corporation Limited and established sales office in Phnom Penh.

1995

Incorporated Contex Corporation as an import agent for marketing of other branded medical supplies.

2000

Incorporated MEDTECS (Taiwan) Corporation. Acquired hospital laundry and sterilisation business in Taiwan.

2001

Incorporated MEDTECS (Far East) Limited in Hong Kong.

Incorporated MEDTECS Materials Technology Corporation in the Philippines.

Broadened hospital services to include the management of hospital facilities and hospital automation.

2005

Acquired Zibo Lianheng Textiles Co., Ltd. in Shandong, China through Cooper Development Limited.

Incorporated Zibo Liancheng Textiles and Garments Co., Ltd. in Shandong, China through Cooper Development Limited.

2002

Group's Taiwan Depository Receipts listed on Taiwan Stock Exchange.

Granted ISO 9001 for the hospital laundry and sterilisation facilities in Taiwan.

2006

Consolidation of the Hospital Services division of Medtecs (Taiwan) Corporation.

Inauguration of new manufacturing plant of Hangzhou Jinchun Medical Supplies Manufacture Co., Ltd. in Hangzhou, China.

2003

Expanded manufacturing facility into China, with the acquisition of Cooper Development Limited and its wholly owned subsidiary, Hangzhou Jinchun Medical Supplies Manufacture Co., Ltd.

Secured its first major outsourcing contract in Hospital Services in the Philippines.

2007

Obtained placement of 69.8 million shares with net proceeds of S\$9.8 million. (US \$6.5 million)

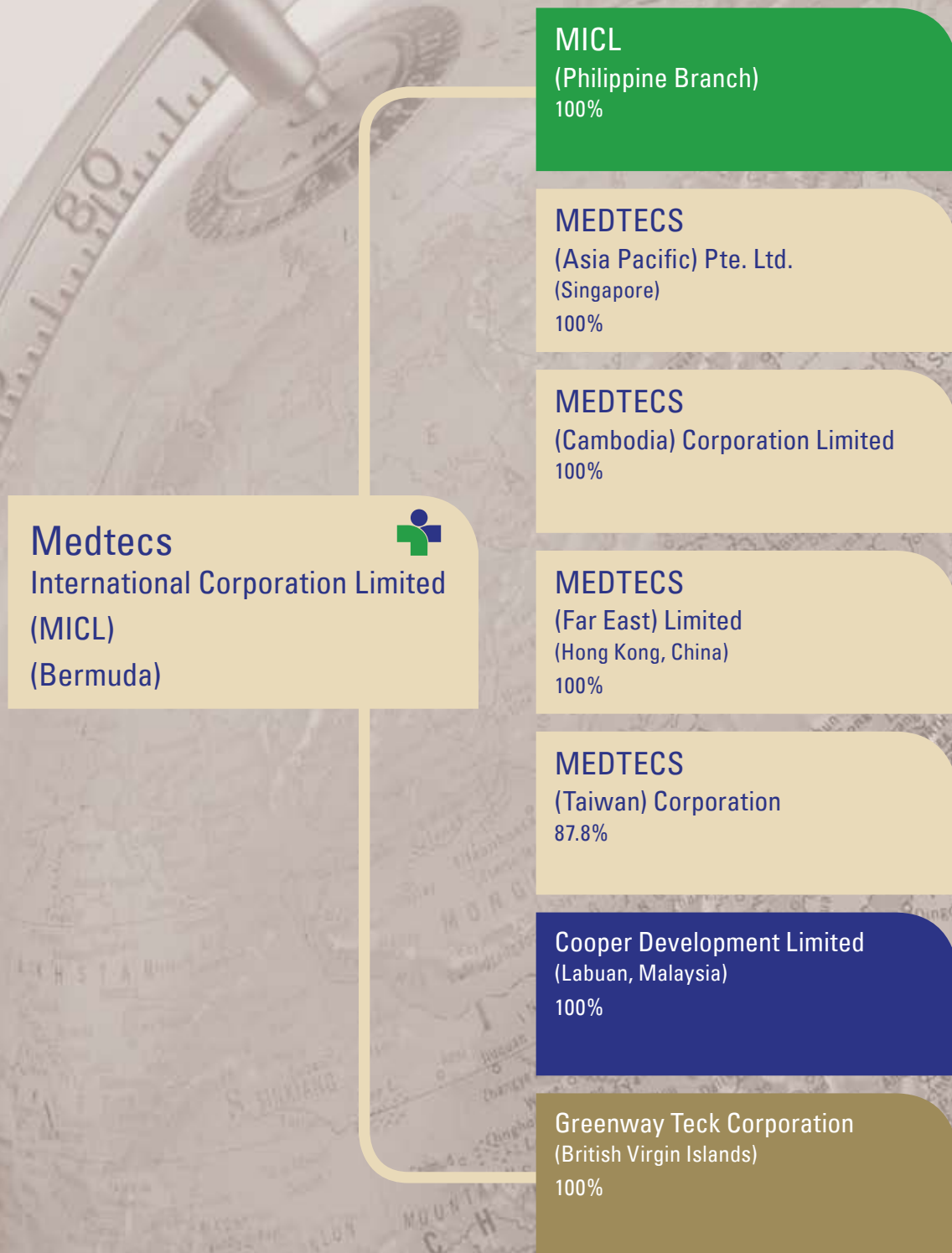
2004

Acquired Greenway Teck Corporation and its wholly owned subsidiary, Shanghai Greenway Medical Apparatus Co., Ltd.

2008

Started energy-saving investment in Cambodia and Philippines.

Corporate Structure



Medtecs
International Corporation Limited
(MICAL)
(Bermuda)

MICL
(Philippine Branch)
100%

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

MEDECS
(Cambodia) Corporation Limited
100%

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

MEDECS
(Taiwan) Corporation
87.8%

Cooper Development Limited
(Labuan, Malaysia)
100%

Greenway Teck Corporation
(British Virgin Islands)
100%

Hangzhou Jinchun Medical
Supplies Manufacture Co., Ltd
(Zhejiang, China)
100%

Zibo Lianheng Textiles Co., Ltd
(Shandong, China)
51.1%

Zibo Liancheng Textiles
and Garments Co., Ltd
(Shandong, China)
100%

Shanghai Greenway
Medical Apparatus Co., Ltd.
(Shanghai, China)
100%

Contex Corporation
(Subic, Philippines)
98.8%

Clement Textile &
International Corporation
(Bataan, Philippines)
100%

Medtecs Materials
Technology Corporation
(Bataan, Philippines)
100%

Medtex Corporation
(Bataan, Philippines)
100%

Universal Weavers
Corporation
(Bataan, Philipp)
100%

Chairman's Message



Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the Group's annual report for the financial year ended 31 December 2008.

The Year 2008 in Review

Year 2008 was marked by adverse market volatility and deteriorating economic conditions as the U.S. sub-prime mortgage problem escalated into a full-blown global financial and economic crisis. Although the financial industry bore the brunt of the crisis, almost all other industries were affected, the difference being the extent of the damage sustained.

The Group was not spared from the impact of the global downturn, experiencing a 11.6% decline in turnover to US\$80.8 million in 2008. However, net profit was hardly affected, dropping by a mere 3.0% to US\$1.0 million despite the drop in turnover due to the Group's shift to higher margined products.

Despite a 10.0% decline, the OPM division remained the mainstay of the Group, chalking up a turnover of US\$69.1 million. Gross profit fell 9.5% to US\$8.9 million but gross profit rate slightly improved from higher-margined business and from energy saving investments. The slowing U.S. economy affected sales of linens and hospitality related products. However, the Group's focus on higher-margined healthcare and hospitality apparel paid off and thus profitability was less affected.

Turnover of the Hospital Services division rose 9.3% to US\$9.6 million as rates increased and the Group managed to secure more hospital contracts in Taiwan and the Philippines. From a profitability standpoint, Hospital Services performed even better with a 67.9% jump in gross profit to US\$1.8 million partly due to the Group enjoying greater efficiency.

The Trading division did not fare as well, with turnover more than halved to US\$2.1 million on lower demand of medical consumables and protective garments in the Asia Pacific region. Gross profit fell to US\$0.1 million.

Despite the credit crunch, the Group managed to re-finance part of its borrowings with a portion of the US\$15 million long-term loan from Germany obtained in October 2008 and a US\$14.6 million syndicated loan from Taiwan in April 2008.

Prospects

The prognosis for the global economy in 2009 remains bleak. Many countries have now gone into full-blown recession despite the best efforts of many governments to restore liquidity and consumer confidence.

Demand for most types of goods and services have shrunk drastically, and the Group expect to face similar conditions. However, we believe that our products and services and the healthcare industry we serve allow us to enjoy a greater degree of stability in consumer demand. Healthcare is an essential industry and will provide us with a base load of orders. In addition, we have an established reputation of delivering quality products and services at competitive prices, which should put us in an advantageous



position vis-à-vis our competitors.

A mitigating factor in this current economic downturn is the fall in the prices of resources. Foremost among these is energy, with oil prices more than halving from its peak. Similarly, raw material prices have also fallen while wages are also on the decline with rising unemployment.

The stimulus packages implemented by various governments may also benefit us. Many governments will boost spending on certain key segments of the economy such as infrastructure and public healthcare. As a leading regional player, we are poised to leverage on this to further grow our business.

Current Year 2009 Focus

Faced with a greater degree of uncertainty in demand, we will emphasize this year on optimizing our current operations. Building on our earlier efforts, we will continue to fine tune various aspects of our business such as manufacturing, finance and customer relationship. In manufacturing, we will adopt more cost-efficient equipment and operational methods. In finance, we will seek ways to optimize our capital structure and, in customer relationship, we will focus our attention on customers with good credit records and consistent orders.

Despite the current crisis, there will be good opportunities for the Group to capitalize on. Hence, the Group will also continue on its path of strategic expansion; in particular, to widen its customer base in the Asia Pacific region.

For instance, the prospects of securing more outsourcing business should increase as organizations shed the less critical parts of their operations in an effort to reduce costs. Such opportunities are particularly promising in our manufacturing and hospital services operations.

The restructuring of our operations over the past few years puts us in good stead to benefit from any increase in demand. Installing more cost-efficient machinery, locating our facilities to lower-cost centres, which are in close proximity to customers, and optimizing work flows give us the flexibility to tide over the current difficulties as well as position us for any upturn in business conditions.

Cost-wise, the worsening global economic conditions have reduced price pressure. Energy prices, as illustrated by the more-than-halved oil price, have fallen to more realistic

levels. Similarly, wage demands have decreased and raw material prices have also declined.

Nevertheless, we will continue to monitor cost factors and take necessary steps to contain them. Hence, our capital expenditure will center on investments in energy-saving devices such our Philippines coal boiler that is already operating as of late 2008. We will also invest in a wood chip boiler and a biomass project in Cambodia.

With regards to our finance costs, we managed to secure a US\$14.6 million syndicated long-term loan in Taiwan and, in October, we managed to secure a US\$15 million long-term loan from Germany. The successful re-financing of our borrowings in 2008 allowed us to lower our financing costs in the face of the current credit crunch. More importantly, it also demonstrates the confidence that the financial institutions have placed in us.

Acknowledgements

In 2008, Mr Koh Soo Keong joined the Board as an Independent Director. We would like to extend our warmest welcome to him. At the same time, we would also like to thank Ms Evelyn Tan Kin Neo, Mr Tsai Wen Chieh and Mr Huang Hung who left the Company as Independent, Executive and Alternate Director in 2008 and wish them well in their future endeavors.

At this juncture, we would like to take this opportunity to thank all stakeholders for their contributions in 2008. To the staff and management, we thank you for your hard work and dedication. To our customers and business associates, we thank you for your faith and confidence in us.

On a personal note, I would also like to extend my most sincere thanks to my fellow directors for their guidance and advice.

I am sure that with all your continued support, Medtecs will not only emerge from this crisis unscathed, but also stronger, to meet the challenges ahead.



Clement Yang Ker-Cheng
Chairman

Financial Review



Profit & Loss Accounts

Group turnover in FY2008 declined 11.6% to US\$80.8 million. Group net profit of US\$1.0 million was only marginally lower by 3.0% due to our shift to higher margined products and services.

The decline in Group turnover was due primarily to a 10.0% fall in turnover of the OPM division to US\$69.1 million and, a 64.9% fall in turnover of the Trading division to US\$2.1 million. The OPM division was affected by lower demand for linens and hospitality-related products due to the slowing U.S. economy and a shift of the Group's focus to higher margined product lines. The Trading division was affected by lower sales of medical consumables and protective garments in the Asia Pacific region.

Partially mitigating the declines in the above two divisions was a 9.3% rise in turnover of the Hospital Services division to US\$9.6 million. Increases in rates and additional hospital contracts in Taiwan and the Philippines were the reasons for the increase.

As a result of the Group's focus on higher margined businesses, the gross profit of the Group fell by 7.1% to US\$10.9 million but gross margin improved from 12.8% to 13.5% in FY2008.

Gross profit of the OPM division fell 9.5% to US\$8.9 million. Despite increases in labour and energy costs and a decrease in export incentives in China, gross margin improved slightly due to a greater level of higher margined business and lower energy costs in the Philippines and Cambodia from the newly-installed energy-saving machineries towards the fourth quarter of 2008. Gross profit from the Trading division fell to US\$0.1 million in FY2008 compared to US\$0.8 million in FY2007.

Gross profit of the Hospital Services division jumped 67.9% to US\$1.8 million as the Group benefited from greater efficiency in operations.

Group other operating income rose 30.5% to US\$1.4 million primarily due to the refund of customs duties in the Philippines.

Group distribution, selling and administrative expenses rose 6.9% to US\$9.1 million. The increase was primarily due to higher manpower and administrative costs of the expanded operations in China and Cambodia, as well as higher freight charges during the first half of the year.

Financial expenses fell 11.8% to US\$2.8 million as the Group managed to lower its borrowing costs.

Financial income rose 84.1% to US\$1.4 million due primarily to higher interest income on advances and from a higher cash and bank balance.

Group net profit decreased marginally, by 3.0% to US\$1.0 million. However, net margin rose to 1.3% from 1.1% in FY2007.



*Turnover declined
but profitability has
been maintained.*

Balance Sheet & Cash Flows

The total assets of the Group increased by US\$7.2 million to US\$103.0 million arising from the acquisition of energy-saving machineries and laundry facilities in Taiwan. Cash and bank balances and fixed deposits increased by US\$4.3 million to US\$6.6 million from proceeds of a long-term loan. Inventory level declined by US\$2.0 million to US\$25.8 million and, trade debtors fell US\$0.7 million to US\$13.9 million as the Group employed better working capital management practices. Supporting the higher asset base, Group borrowings rose by US\$7.1 million to US\$41.6 million. Part of the increase was due to the partial disbursement of the US\$15 million loan from Germany obtained in October 2008 and US\$14.6 million syndicated loan obtained from Taiwan.

The Group generated a positive net operating cashflow of US\$7.0 million. After accounting for a cash outflow of US\$9.8 million from investing activities and inflow of US\$7.7 million for financing activities, there was a net increase in cash and bank balances of US\$4.9 million.





Business Outlook and Prospects

2009 will be an even more challenging year than 2008. The prospect of declining demand is very real as the global economy continues to stutter.

Despite this, we are cautiously confident that we will be able to tide over this current situation and keep the company stable. Our corporate philosophy of prudent expansion and emphasis on the care of our stakeholders (e.g. customers, shareholders, employees and business associates) will bring us through this crisis.

Original Product Manufacturing

The outlook for our OPM division is mixed. While sales of linens and hospitality related products to the U.S. have been weak, the economic stimulus package may benefit us as it targets public healthcare spending as a key component.

At the backend, we have completed the revamp of our manufacturing operations. In China, Hangzhou Jinchen is now fully-operational and capable of producing a wide array of products including higher margined disposable surgical packs.

Our Cambodia and Philippines plants will benefit from the full year impact of energy-efficient, cost-saving coal-fired boilers.

We will continue to emphasize on delivering the best products at the best prices to secure more orders in the Asia Pacific region, Europe and the U.S., concentrating on higher-margined products. We are confident that we are well-placed to benefit from the anticipated increase in outsourcing needs of U.S.-based manufacturers.

Hospital Services

Last year, we were optimistic about our Hospital Services division and, we were not disappointed.

We believe that this division should continue to do well as the economic downturn will persuade many hospitals to outsource their non-essential services such as laundry.

We are also enjoying good margins for the business due to the benefits of economies of scale as business activities expand.

We remain optimistic about this business and expect increased revenues from existing and new contracts as we expand our footprint in the Asia Pacific region.

Trading and Distribution

Turnover of our Trading division may continue to be slow in line with decreased demand. Profitability may also be affected due to pricing pressure.

To mitigate this, we intend to review the product lines we carry to focus on more value-added items. In the Philippines, we will emphasize on sale of military uniforms and medical consumables. In Taiwan, we will concentrate on medical consumables and our own in-house products. We will also ramp up our medical devices business throughout the Asia Pacific region.



2009 will be challenging but we are well-equipped to meet the challenges.

ORIGINAL PRODUCT MANUFACTURING

Pricing pressure is expected to be partially mitigated by increased outsourcing requirements from customers.

HOSPITAL SERVICES

Outsourcing in Taiwan and the Philippines expected to support growth.

TRADING

Group intends to focus on value-added products.

Corporate Social Responsibility Statement

While we are a profit-oriented organization, Medtecs also remains committed to be a responsible corporate citizen in the countries in which we operate. As an integrated healthcare product and services provider, we are able to play a direct part in enhancing the quality of life.

In compliance with international laws on labour, safety, health and the environment, the Group is committed to observing and adhering to international and local laws that govern and protect the welfare of workers, ensure their safety, health and the preservation of the environment.

The Group's commitment was shown during the SARS outbreak and the 2004 Asia tsunami, wherein the Group continuously supplied much needed medical consumables to help relief efforts.

Likewise, on 12 May 2008, we took prompt action when a massive earthquake shook southwestern China's Sichuan Province, claiming close to 50,000 lives while rendering millions homeless. The Group's Philippine and Cambodian subsidiaries quickly responded by donating not only money but also protective garments, masks and other hospital supplies to various international charitable organizations that were involved in the disaster relief efforts. Moreover, many employees at Medtecs Taipei office volunteered to donate their one day's salary to the victims through the Red Cross Society of the Republic of China.

This commitment and corporate social responsibility of the Group will not only extend to our workers, employees, officers and directors, but also instill in the minds of our shareholders and customers the responsibility to protect the environment, and impose upon our suppliers and service providers who wish to do business with the company to observe and comply with international as well as local laws concerning the rights, safety and health of workers as well as the reduction of industrial waste and how to conserve and protect the environment.



Medtecs remains committed to being a responsible corporate citizen.



Product Research & Development

While we remain committed to Research & Development, the current crisis has shifted our R&D focus. The emphasis is now on finding cheaper alternative designs and raw materials for our products, without compromising on quality. In addition to this, our R&D people achieved the following results in the year 2008 and 2009:

- Completed Digital Camouflage BDU Design for Singapore Army.(Research Project)
- Completed Digital Camouflage BDU Design for Ph Marine (DMOT Project)
- Completed Digital Tiger Stripe Camouflage BDU for SWAT of Philippines military.
- Completed Digital Jungle Camouflage BDU for Philippines Army.
- Developed Digital Backpack & Pouch for Singapore Army.
- Developed Anti-Bacteria Body Bag.(For human and animal)
- Developed P3 level Face & Cup Mask(10 types)
- New Energy and Investment Projects:
 - > Coal fire steam boiler & Thermal Oil boiler.(Bataan System).
 - > Duels-fuels (Coal and Wood Chip) steam & Thermal Oil boilers (Demonstration prototype to be implemented in Cambodia in 2009).
 - > Biomass (Wood Chip) Gasification and Cogeneration Power Plant.(Development Study Project to be implemented in Cambodia in 2009)
 - > Garment Plant Expansion (Capacity & Space Expansion for increased procurement orders) in Cambodia
 - > New Dyeing Factory (Build up full integrated medical textile production line from yarn, weave, dyeing, treatment, up to garment manufacturing) in Cambodia.



Focus on more cost effective alternative designs, raw materials and equipment without compromising quality



Corporate Directory



Board of Directors

Clement Yang Ker-Cheng
Chairman/Chief Executive Officer

Wilfrido Candelaria Rodriguez
Executive Director

Gary Yang Ker-Yi
Executive Director

George Edwin SyCip
Independent Director

Koh Soo Keong
Independent Director

Carol Yang Xiao-Qing
Independent Director

Chia Wei Ho
Independent Director

Executive Committee

Clement Yang Ker-Cheng
Chairman/Chief Executive Officer

Wilfrido Candelaria Rodriguez
Chief Financial Officer

Gary Yang Ker-Yi
Vice President of International Marketing

Audit Committee

Chia Wei Ho
Chairman

George Edwin SyCip
Member

Carol Yang Xiao-Qing
Member

Koh Soo Keong
Member

Remuneration Committee

Carol Yang Xiao-Qing
Chairman

Clement Yang Ker-Cheng
Member

Koh Soo Keong
Member

George Edwin SyCip
Member

Chia Wei Ho
Member

Corporate Directory

(Continued)

Nominating Committee

George Edwin SyCip
Chairman

Clement Yang Ker-Cheng
Member

Koh Soo Keong
Member

Carol Yang Xiao-Qing
Member

Chia WeiHo
Member

Company Secretaries

Abdul Jabbar Bin Karam Din
(Joint Company Secretary)

Loh Lee Eng
(Joint Company Secretary)

Ira Stuart Outerbridge III
(Assistant Company Secretary)

Share Transfer Agent

Boardroom Corporate & Advisory
Services Pte Ltd
3 Church Street # 08-01 Samsung Hub
Singapore 049483



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
(appointed on 4 December 2006)

Principal Bankers

Bank of Pan Hsin
No.11, Sec. 1, Wenhua Rd., Banqiao City,
Taipei County 220, Taiwan (R.O.C.)

DEG - Deutsche Investitions- und
Entwicklungsgesellschaft mbH
Kaemmergasse 22
50676 Cologne
Germany

Banco de Oro Universal Bank
12 ADB Avenue
Ortigas Center
Mandaluyong City, Philippines

Bank of Commerce
Phil. First Building
6764 Ayala Avenue
Makati City, Philippines

Mega International Commercial Bank Co. Ltd.
80 Raffles Place
#23-20 UOB Plaza II
Singapore 048624

Bangkok Bank Public Co. Ltd.
10th Floor Tower 2, The Enterprise Center
6766 Ayala Avenue,
Makati City 1200, Philippines



Profile of the Board of Directors

Mr Clement Yang Ker-Cheng

Executive Chairman

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, pharmaceutical companies and hospital groups around the globe.

Prior to the founding of 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 Chinese-Philippine Business Council.

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

Mr Yang graduated with a bachelor's degree in International Commerce from the National Cheng-Chi University in Taiwan.

Mr Wilfrido Candelaria Rodriguez

Executive Director

Last re-appointed: April 2007

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 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 George Edwin SyCip

Independent Director

Last re-appointed: April 2007

Mr George Edwin SyCip was appointed as an Independent Director of the Company on 19 September 1999. He was appointed Chairman of the Nominating Committee on 24 February 2006. Mr SyCip is also a member of the Audit and Remuneration Committees.

For the past twenty years, he has been the President of Halanna Management Corporation, an investment management and consulting company, and serves on the Boards or Advisory Boards of several publicly listed and privately held companies in the USA and Asia, involved in financial services, airport services, manufacturing and real estate. He also serves on the Boards of the California-Asia Business Council and Stanford University's Institute for International Studies. During the 1970s and 1980s, he worked in banking and finance with American Express International Banking Corporation, The Crocker Bank, Hibernia Bank and United Savings Bank.

Mr SyCip graduated with a Bachelor of Arts in International Relations/Economics from Stanford University and a Masters of Business Administration from Harvard University.

Mr Gary Yang Ker-Yi

Executive Director

Last re-appointed: April 2008

Mr Gary Yang Ker-Yi was appointed Senior Vice-President for the Company's China Operations on 1 January 2003, Executive Director on 1 May 2005 and Vice-President of International Marketing on 1 August 2008. He is a member of the Executive committee.

Before he joined the Company, Mr Yang served as American Enterprise Inc.'s Representative to China. Prior to this, he was responsible for the purchasing activities of Gold Rush Corporation.

Mr Yang obtained his Masters in Business Administration from the South Columbia University in 2004.

Ms Carol Yang Xiao-Qing

Independent Director

Last re-appointed: April 2006

Ms Carol Yang Xiao-Qing was appointed as an Independent Director of the Company on 1 May 2005 and Chairman of the Remuneration Committee on 24 February 2006. She is a member of the Audit and Nominating 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 chairs the Board of Nanjing MFK Bio-tech Co. Ltd. and held directorships in Schauenburg Truplast Hose Technology Ltd., Guangzhou GISE Gas Ltd., Asia Light Group Limited and Shanghai AKA Coal Preparation, Ltd. for the last five years.

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

Mr Chia Wei Ho

Independent Director

Appointed: April 2008

Mr Chia Wei Ho was appointed as an Independent Director of the Company on 22 October 2007 and Audit Committee Chairman on 11 May 2008. He is also a member of the Nominating and Remuneration Committees.

Mr Chia is the Finance Director (Asia Pacific) of Chamberlain Computime Investment (HK) Ltd, a USA and HK joint venture in manufacture and distribution of electronic products. Prior to that, he was the COO and CFO of Tri-M Technologies (S) Ltd, a Singapore Stock Exchange main board listed company in the business of electronics contract manufacturing (Aug 2004- Nov 2007). He has a unique Asia-Pacific finance background spanning both technology (Compaq, Maxtor and Dell) and banking industries (UOB and Standard Chartered). In a career that spans more than twenty two years, his financial management experience is diversified and includes strategic business planning, budgeting, listing, accounting, costing, treasury, M&A and ORACLE system implementation.

After an initial ten-year career in banking that culminated in him being Head of Treasury Services with Standard Chartered Bank, Mr Chia then successfully switched over to a career in the technology sector. During the next twelve years, Mr Chia went on to hold regional Finance Director and Controller appointments with Compaq, Maxtor, Dell, and Citibank (Asia Pacific Distributed Technology Division) as well as SVP (Finance) of Medtecs International Corporation Ltd (in 2002). Mr Chia's service with Compaq also included a two-year assignment with Compaq Computer's joint-venture in Shenzhen, China.

Mr Chia possesses a Bachelor of Arts (Economics major) degree from the former University of Singapore as well as a Master in Applied Finance from the University of Western Sydney (Australia). He is a Certified Management Accountant (Australia) and is also a Senior Associate of the Australian Institute of Bankers.

Mr Koh Soo Keong

Independent Director

Appointed: May 2008

Mr Koh Soo Keong was appointed as an Independent Director of the Company on 31 May 2008 and is also a member of the Audit, Nominating and Remuneration Committees.

Mr Koh Soo Keong has over 20 years of experience in the logistics industry. He was the President and Chief Executive Officer of SembCorp Logistics and the President of ST Logistics until he retired from the companies April 2007. Through his leadership, he has successfully guided the transformation and growth of SembCorp Logistics into Asia's leading integrated logistics company. He is currently the Managing Director of EcoSave, Chairman of AusGroup and The Agri-Food & Veterinary Authority, Director of Noel Gifts International Ltd, ECS Holdings Limited and KS Energy Services Limited.

Mr Koh holds two patents including the National Library system. He also has a Bachelor of Engineering (Honours) degree, a Master of Business Administration and a Post-Graduate Diploma in Business Law from the University of Singapore.



Financial Calendar



FY 31 December 2008

Announcement of Full Year Results

27 February 2009

Annual General Meeting

29 April 2009

FY 31 December 2009

Proposed Announcement of Half Year Results

Middle of August 2009

Proposed Announcement of Full Year Results

Last week of February 2010.





Report on Corporate Governance

The Board of Directors and management are committed to high standards of corporate governance in complying with the Code of Corporate Governance (the "Code") which forms part of the Continuing Obligations of the Singapore Exchange Securities Trading Limited (SGX-ST)'s Listing Manual. Good corporate governance establishes and maintains an ethical environment, which will enhance the interests of all shareholders. This report outlines the Company's corporate governance processes and activities that were in place throughout the financial year with specific reference made to each of the principles 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 success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board.

Role of the Board of Directors

The Board's primary role is to protect and enhance long-term shareholder value. It supervises the management of the business and affairs of the Company and its subsidiaries (the "Group"). The Board approves the Group's corporate and strategic direction, appointment of directors and key managerial personnel, annual budgets, major funding and investment proposals, and reviews the financial performance of the Group.

Board Processes

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including an Executive Committee, an Audit Committee, a Nominating Committee, and a Remuneration Committee. These committees function within clearly defined terms of reference and operating procedures which are reviewed on a regular basis. The effectiveness of each committee is also constantly monitored.

The full Board currently holds 4 scheduled meetings each year.

Matters Requiring Board Approval

The directors have identified a number of areas for which the Board has direct responsibility for decision-making. The Board meets to consider the following material transactions:

- Approving half yearly results announcements;
- Approving annual results and accounts;
- Declaration of interim dividends and proposal of final dividends;
- Convening of shareholders' meetings;
- Approving the broad policies, strategies and financial objectives of the Company and monitoring the performance of management;
- Overseeing the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;
- Approving annual budgets, major funding proposals, investment and divestment proposals; and
- Assuming responsibility for corporate governance.

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

- conflict of interest 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 transaction policy.

All other matters are delegated to committees whose actions are reported to and monitored by the Board.

Directors' Meetings held in 2008

In the course of the year under review, the number of meetings held and attended by the incumbent members of the Board are as follows:

Name of director	Number of Board Meetings held	Attendance
Clement Yang Ker-Cheng (Chairman)	4	4
Wilfrido Candelaria Rodriguez	4	4
George Edwin SyCip	4	4
Evelyn Tan Kin Neo*	4	2
Koh Soo Keong**	4	2
Carol Yang Xiao-Qing	4	3
Gary Yang Ker-Yi	4	2
Chia Wei Ho	4	3
Tsai Wen Chieh***	4	1
Huang Hung****	4	1
(as alternate director to Mr Gary Yang Ker-Yi)		
Thomas Seah Kok-Hwa*****	4	0
(as alternate director to Mr Tsai Wen Chieh)		

* Resigned as of 31 May 2008

** Appointed on 31 May 2008

*** Resigned as of 8 August 2008

**** Ceased to be an alternate director as of 8 August 2008

***** Ceased to be an alternate director as of 10 March 2008

Training of Directors

The Group provides extensive background information about its history, mission and values to its directors. The directors also have the opportunity to visit the Group's operational facilities and meet with management to gain a better understanding of business operations.



The Board

Executive Committee

The Executive Committee is entrusted with the conduct of the Group's business and affairs in line with the overall strategy by the Board. The Committee is comprised of three (3) executive directors, Messrs Clement Yang Ker-Cheng, Gary Yang Ker-Yi and Wilfrido Candelaria Rodriguez.

The Committee meets on a monthly basis and at such other times where necessary.

The number of meetings held by the Committee and attendance thereat during the last financial year are as follows:

Name of director/executive	Designation	Number of meetings held	Attendance
Clement Yang Ker-Cheng	Chairman/CEO	12	12
Wilfrido Candelaria Rodriguez*	Executive Director	12	12
	Chief Financial Officer		
Gary Yang Ker-Yi	Executive Director	12	4
	Vice President		
	International Marketing		
Chu Sui Lung Leo**	Chief Financial Officer	12	7
Alex Chang Cheng Yao***	Chief Financial Officer	12	4

* appointed as Chief Financial Officer as of 10 December 2008

** appointed as Chief Financial Officer as of 13 May 2008 and resigned on 30 November 2008

*** resigned as Chief Financial Officer on 13 May 2008

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. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board is comprised of four (4) independent directors and three (3) executive directors.

The composition of the Board is determined in accordance with the following principles:

- the Board should comprise at least one-third of independent non-executive directors;
- the Board should have enough directors to serve on various committees of the Board without over-burdening the directors or making it difficult for them to fully discharge their responsibilities;
- the directors appointed by the Board are subject to election by the shareholders at the next annual general meeting and thereafter directors are subject to retirement and re-election at least once every three years. The term of office for each executive director is fixed in his service contract with the Company which also regulates his terms of employment.

The Board constantly examines its size and, with a view to determining the impact of its number upon effectiveness, decides on what it considers an appropriate size for itself. The composition of the Board is reviewed on an annual basis by the Nominating Committee to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or when it is considered that the Board would benefit from the services of a new director with particular skills, the Nominating Committee, in consultation with the Board, determines the selection criteria and selects candidates with the appropriate expertise and experience for the position. The Board then appoints the most suitable candidate.

The Nominating Committee is also of the view that the current Board size is appropriate, taking into account the nature and scope of the Company's operations. The Board consists of high caliber members with a wealth of knowledge, expertise and experience. They contribute valuable direction and insight, drawing from their vast experience in matters relating to accounting, finance, legal, business and general corporate matters.

The independent directors constructively challenge and help develop proposals on strategy and review the performance of management in meeting agreed goals and objectives and monitor the reporting performance.

Independent Members of the Board of directors

The Company has four (4) independent directors which comprise more than one-half of the Board.

They are as follows:

- (1) Mr George Edwin SyCip;
- (2) Mr Koh Soo Keong;
- (3) Ms Carol Yang Xiao-Qing; and,
- (4) Mr Chia Wei Ho.

Mr Koh Soo Keong and Mr Chia Wei Ho are both residing in Singapore. The Company is in compliance with the Listing Rules which requires that there should at least be two (2) independent directors who are both residing in Singapore.

The criteria of independence is based on the definition given in the Code. The Board considers an "independent" director as one who has no relationship with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent judgment of the Group's affairs.

Chairman and Chief Executive Officer

Principle 3 : There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

The Board remains of the view that it is in the best interests of the Group to adopt a single leadership structure where the Chief Executive Officer ('CEO') and Chairman of the Board, who also represents the largest shareholding block of the Group, is the same person, so as to ensure that the decision-making and implementation processes of the Group would not be unnecessarily hindered. However, the board will continue to evaluate this premise in light of the Group's future developments.

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.

The Chairman and CEO exercises control over quality, quantity and timeliness 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.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board.

Nominating Committee

The Board established the Nominating Committee on 11 March 2002. Its Chairman is Mr George Edwin SyCip, and its other members are Messrs Clement Yang Ker-Cheng, Koh Soo Keong and Chia Wei Ho, and Ms Carol Yang Xiao-Qing. The Chairman is not, or not directly associated with, a substantial shareholder of the Company.

The responsibilities of the Nominating Committee are to determine the criteria for identifying candidates and reviewing nominations for the appointment of directors to the Board. It also decides on the evaluation process for the Board's performance and proposes objective performance criteria for the Board's approval.

In addition, the Nominating Committee performs the following functions:

- nominates any director for re-election at the Annual General Meeting;
- reviews the independence of each director on an annual basis and ensures that at least one-third of the Board are independent directors;
- decides whether a director is able to and has been adequately carrying out his or her duties as a director of the Company, particularly when the director has multiple board representations; and
- identifies gaps in the mix of skills, experience and other qualities required in an effective board so as to better nominate or recommend suitable candidates to fill the gaps.

The Nominating Committee regulates its own procedures and in particular the calling of meetings, the notice to be given of such meetings, the voting and proceedings thereat. The Company also maintains records of the deliberations and proceedings of the Nominating Committee.

Pursuant to Bye-Law 86 of the Company's Bye-Laws, one-third (1/3) of the Directors for the time being, shall retire from office by rotation at each annual general meeting; provided that the Chairman and/or Managing Director 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 annual general meeting and shall be eligible for re-election at that general meeting.

Board Performance

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

Based on the recommendations of the Nominating Committee, 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 criteria have been approved by the Board and have not been changed from last year.

The Nominating Committee also assesses the contribution of each director to the effectiveness of the Board as a whole, taking into consideration the director's attendance record, overall participation, expertise, strategic vision, financial savvy, business judgment and sense of accountability.

The Company will continue to review and evaluate its appraisal process and consider how best to fine tune the appropriate performance criteria.

The number of meetings held by the Nominating Committee and attendance during the last financial year are as follows:

Name of director/executive	Appointment	Number of meetings held	Attendance
George Edwin SyCip (Chairman)	Independent	4	4
Evelyn Tan Kin Neo* (Member)	Independent	4	2
Carol Yang Xiao-Qing (Member)	Independent	4	3
Chia Wei Ho (Member)	Independent	4	3
Koh Soo Keong** (New Member)	Independent	4	2
Clement Yang Ker-Cheng (Member)	Executive	4	4

* ceased as a Member of the Nominating Committee on 31 May 2008

** appointed as a Member of the Nominating Committee on 31 May 2008

Access to Information

Principle 6: In order to fulfil their responsibilities, Board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

Directors are furnished with detailed information concerning the Group to enable them to be fully cognizant of the decisions and actions of the Group's management. All directors have unrestricted access to the Company's records and information and receive regular management accounts to enable them to constantly keep track of the Group's financial position. Detailed Board papers are prepared for each meeting of the Board and include sufficient information from management on financial, business and corporate issues to enable the directors to be properly briefed on issues to be considered at Board meetings. All independent directors have access to all levels of senior executives in the Group, and are encouraged to speak to other employees to seek additional information if they so require.

The Company Secretary attends all Board and specialized committee meetings.

Should directors, whether as a group or individually, need independent professional advice, a professional advisor would be sought by the group or the individual, and approved by the Chairman and CEO, to render the advice. The cost of such professional advice will be borne by the Company.

(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.

Remuneration Committee

The Committee is composed of five (5) members, four (4) of whom are independent directors and one (1) executive director. The Chairwoman is Ms Carol Yang Xiao-Qing, and the other members are Messrs Clement Yang Ker-Cheng, George Edwin SyCip, Chia Wei Ho, and Koh Soo Keong.

The Board considers that Mr Clement Yang Ker-Cheng, who is the CEO, significantly contributes to the evaluation by the Committee of the performance of senior management and staff. The Board further believes that the current structure and membership of the Remuneration Committee is beneficial to the Company and will not increase the risk of any potential conflict of interest.

The Remuneration Committee has access to expert advice in the field of executive compensation outside the Company.

The members of the Remuneration Committee carry out their duties in accordance with the terms of reference which include the following:

- a) advising the Board on the framework of remuneration policies for executive and non-executive directors and senior management;
- b) reviewing and approving the granting of share options to the executive directors; and
- c) reviewing and approving the aggregate variable cash bonuses and share options to the employees of the Group.

The number of meetings held, and attendance thereat during the last financial year are as follows:

Name of director/executive	Appointment	Number of meetings held	Attendance
Carol Yang Xiao-Qing (Chairman)	Independent	4	3
George Edwin SyCip (Member)	Independent	4	4
Evelyn Tan Kin Neo* (Member)	Independent	4	2
Chia Wei Ho (Member)	Independent	4	3
Koh Soo Keong** (New Member)	Independent	4	2
Clement Yang Ker-Cheng (Member)	Executive	4	4

* ceased as a Member of the Remuneration Committee on 31 May 2008

** appointed as a Member of the Remuneration Committee on 31 May 2008

Level and Mix of Remuneration

Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

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 Remuneration Committee to ensure that the remuneration of the executive directors and senior management are commensurate with their performance and value 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 senior executives) is reviewed periodically by the Remuneration Committee.

The service contracts for the two (2) executive directors contain clauses relating to early termination. None of the service contracts has onerous removal clauses. The Chairman and CEO's service contract has a fixed appointment period.

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 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 annual general meeting.

Disclosure on Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policy, 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 key executives, and performance.

The breakdowns of remuneration of the directors, key executives and employees who are immediate family members of a director/CEO are set out below:

Remuneration of Directors

	Year 2008	Year 2007
S\$500,000 and above		
S\$250,000 to below S\$500,000	Clement Yang Ker-Cheng	Clement Yang Ker-Cheng
Below S\$250,000	Wilfrido Candelaria Rodriguez	Wilfrido Candelaria Rodriguez
	George Edwin SyCip	George Edwin SyCip
	Evelyn Tan Kin Neo (resigned on 31 May 2008)	Evelyn Tan Kin Neo
	Koh Soo Keong (appointed on 31 May 2008)	Gary Yang Ker-Yi
	Gary Yang Ker-Yi	Carol Yang Xiao-Qing
	Carol Yang Xiao-Qing	Chia Wei Ho (appointed on 22 October 2007)
	Chia Wei Ho	Tsai Wen Chieh (appointed on 22 October 2007)
	Tsai Wen Chieh (resigned on 11 August 2008)	Huang Hung (appointed as alternate director on 22 October 2007)
	Huang Hung (ceased to be an alternate director on 8 August 2008)	Seah Kok Hwa (appointed as alternate director on 22 October 2007)
	Seah Kok Hwa (ceased to be an alternate director on 8 August 2008)	

Breakdown of Remuneration of Each Director by Percentage

		Salary	Bonus	Fee ¹	Share Options ²
S\$500,000 and above					
S\$250,000 to below S\$500,000	Clement Yang Ker-Cheng	90%	0%	10%	0%
Below S\$250,000	Wilfrido Candelaria Rodriguez	90%	0%	10%	0%
	Evelyn Tan Kin Neo	0%	0%	100%	0%
	George Edwin SyCip	0%	0%	100%	0%
	Gary Yang Ker-Yi	97%	0%	3%	0%
	Carol Yang Xiao-Qing	0%	0%	100%	0%
	Chia Wei Ho	0%	0%	100%	0%
	Koh Soo Keong	0%	0%	100%	0%
	Tsai Wen Chieh	95%	0%	5%	0%
	Huang Hung	100%	0%	0%	0%
	Seah Kok-Hwa	100%	0%	0%	0%

1 subject to approval by the shareholders as a lump sum at the annual general meeting for the financial year ended 31 December 2008.

2 the share options were all granted under the Medtecs Share Option Scheme adopted on 30 May 2002. The fair values of the share options granted at the date of grant were estimated using the Black-Scholes option-pricing model taking into account the share price at grant date, the exercise price, the risk-free interest rate, the expected dividends yield, volatility and life of the option.

Remuneration of Top Key Executives who are not Directors

	Year 2008	Year 2007
S\$500,000 and above	–	–
S\$250,000 to below S\$500,000	–	–
Below S\$250,000	Chu Sui Lung, Leo Alex Chang Cheng Yao*	Alex Chang Cheng Yao

* resigned as Chief Financial Officer on 13 May 2008

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

		Salary	Bonus	Fee ¹	Share Options ²
S\$500,000 and above	–	–	–	–	–
S\$250,000 to below S\$500,000	–	–	–	–	–
Below S\$250,000	William Yang ³	100 %	0%	0%	0%

³ Mr William Yang is the son of Mr Clement Yang Ker-Cheng.

Approval of Shareholders

Shareholders' approval was previously obtained for the Medtecs Share Option Scheme. Directors' fees were also approved by shareholders at the annual general meeting. The remuneration framework for executives and executive directors have also been approved by the Remuneration Committee and endorsed by the Board. The Board considers that the remuneration framework does not need to be approved by the shareholders.

(C) ACCOUNTABILITY AND AUDIT

Accountability

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

As stated above, the Board's primary role is to protect and enhance the long-term shareholder value. In the discharge of its duties to the shareholders, the Board, when presenting annual financial statements and announcements, seek to provide the shareholders with a detailed analysis, explanation and assessment of the Group's financial position and prospects. Management currently provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a regular basis and such other information more specifically described under Principle 6 (Access to Information).



Audit Committee

Principle 11: The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

The Audit Committee is comprised of four (4) independent directors, namely Mr Chia Wei Ho, its Chairman, Messrs George Edwin SyCip, Koh Soo Keong, and Ms Carol Yang Xiao-Qing.

The members of the Audit Committee are professionals with many years of experience in business management, finance and legal services. The Board is of the view that members of the Audit Committee have sufficient financial management knowledge and experience to discharge the Audit Committee's functions.

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 presentation of the financial statements;
 - > compliance with accounting standards, legal and 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 committee.
- 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 of the internal control systems including financial, operational and compliance controls and risk management of the Group by reviewing written reports from the internal and external auditors, and management's responses and actions to correct any deficiencies;
- reviews interested person transactions in accordance with the requirements of the SGX-ST Listing Manual;
- meets with the external auditors, other committees, and Management to discuss any matters that these groups believe should be discussed privately with the Audit Committee;
- reviews the nature and extent of non-audit services provided by external auditors; reports actions and minutes of the Audit Committee to the Board of Directors with such recommendations as the Audit Committee considers appropriate;
- advises the Board on the appointment of external auditors; and
- considers other matters as requested by the Board.

The Company has put in place a whistling-blowing policy endorsed by the AC, by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters with the AC. The objective for such arrangement is to ensure independent investigation of such matters and appropriate follow-up action.

The Audit Committee also monitors proposed changes in accounting policies and discusses the accounting implications of major transactions. In addition, the Audit Committee advises the Board on the adequacy of the Group's internal controls and the contents and presentation of its reports.

The Audit Committee is authorized to investigate any matter within its terms of reference, and has full access to management and also full discretion to invite any executive director or executive officer to attend its meetings, as well as reasonable resources to enable it to discharge its function properly. The Audit Committee, 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 Audit Committee has also conducted a review of interested person transactions. Annually, the Audit Committee 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 number of meetings held by the Audit Committee and attendance thereat during the last financial year are as follows:

Name of director/executive	Appointment	Number of meetings held	Attendance
Chia Wei Ho* (Chairman)	Independent	4	3
Evelyn Tan Kin Neo** (Chairwoman)	Independent	4	2
Carol Yang Xiao-Qing (Member)	Independent	4	3
George Edwin SyCip (Member)	Independent	4	4
Koh Soo Keong*** (New Member)	Independent	4	2

* appointed as Chairman of the Audit Committee on 31 May 2008

** resigned as Chairwoman of the Audit Committee on 31 May 2008

*** appointed as a Member of the Audit Committee on 31 May 2008

Internal Controls

Principle 12: The Board should ensure that Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

The Company's internal and external auditors conduct annual review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls, and risk management, in accordance with their audit plans. Any material non-compliance or failure in internal controls and recommendations for improvements are reported to the Audit Committee. The Audit Committee has also reviewed the effectiveness of the actions taken by the management on the recommendations made by the internal and external auditors in this respect.

The Board believes that the system of internal control maintained by the Company's management which was implemented throughout the financial year ended 31 December 2008 up to the date of this report, provides reasonable assurance against material financial misstatements or loss, and includes the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risk. The Board notes that no system of internal control could provide assurance against the occurrence of material errors, poor judgment in decision-making, human error, losses, fraud or other irregularities.

Internal Audit

Principle 13: The Company should establish an internal audit function that is independent of the activities it audits.

The Internal Audit Team is headed by the Internal Audit Manager. She reports findings and recommendations to the Chairman of the Audit Committee and reports administratively to the CEO. The Audit Committee reviews the Internal Audit's 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 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 the 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) COMMUNICATION WITH SHAREHOLDERS

Communication with Shareholders

Principle 14: Companies should engage in regular, effective and fair communication with shareholders.

Principle 15: Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the Company.

The Company does not practise selective disclosure. In line with continuous disclosure obligations of the Company required by the SGX-ST's Listing Rules, the Board's policy is that all shareholders should be equally and timely informed of all major developments that impact the Group.

Information is communicated to the shareholders on a timely basis through:

- annual reports that are prepared and issued to all shareholders. The Board makes every effort to ensure that the annual report sets out all relevant information about the Group, including future developments and other disclosures required by the Companies Act and Singapore Financial Reporting Standards;
- financial statements containing a summary of the financial information and affairs of the Group for the period are published through the SGXNET;
- notices of and explanatory memoranda for annual general meetings and special general meetings;
- press and analyst briefings for the Group's half-year results;
- press releases on major developments of the Group;
- disclosures to the SGX-ST; and
- the Group's website at www.medtecs.com at which shareholders can access information on the Group. The website provides, inter alia, corporate announcements, annual reports, and profiles of the Group.

In addition, shareholders are encouraged to attend annual general meetings to ensure a high level of accountability and to keep abreast of the Group's strategy and goals. The annual general meeting is the principal forum for dialogue with the shareholders.

The notice of the annual general meeting is dispatched to the shareholders, together with explanatory notes or a circular on items of special business, at least 14 clear days before the meeting.

The Board welcomes questions from the shareholders raised either informally or formally before or at the annual general meeting. The Chairpersons of the Audit, Remuneration, and Nominating Committees are normally present at the annual general meeting to answer questions relating to the work of these committees. Likewise, the external auditors are normally present to address the shareholders' queries about the conduct of audits and the preparation and content of the auditors' report.

(E) DEALING WITH SECURITIES

In line with Listing Rule 1207 (18), the Company has adopted and implemented its own internal compliance code on dealing in securities. This has been made known to directors, officers and staff of the Company and of the Group. In particular, it has been highlighted that it is an offence to deal in the Company's securities as well as securities of other listed companies when the officers (directors and employees) are in possession of unpublished material price-sensitive information in relation to those securities. 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.

Compliance with Listing Rule 1207 (18) of the SGX-ST

The Board of Directors confirms that for the financial year ended 31 December 2008, the Company has complied with Listing Rule 1207 (18).

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Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2008
(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 sheets, profit and loss accounts and statements of changes in equity of the Company for the financial year ended 31 December 2008.

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)
Wilfrido Candelaria Rodriguez
George Edwin SyCip
Gary Yang Ker-Yi
Carol Yang Xiao-Qing
Chia Wei Ho
Koh Soo Keong (appointed on 31 May 2008)

In accordance with Bye-Law 85 of the Company's Bye-Laws, Koh Soo Keong retires and, being eligible, offers himself for re-election.

In accordance with Bye-Law 86 of the Company's Bye-Laws, George Edwin SyCip and Carol Yang Xiao-Qing retire 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 object is or one of whose objects 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.

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 required to be kept under section 164 of the Singapore Companies Act, Cap. 50, 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:

Name of director	Direct Interest			Deemed Interest		
	At 1 January 2008	At 31 December 2008	At 21 January 2009	At 1 January 2008	At 31 December 2008	At 21 January 2009
<i>Ordinary shares of the Company at \$0.05 each</i>						
Clement Yang Ker-Cheng	3,315,600	8,793,600	8,793,600	71,098,141	65,998,141	65,998,141
George Edwin SyCip	–	–	–	122,736	–	–

Clement Yang Ker-Cheng is deemed to be interested in the 42,922,943 shares (1 January 2008: 42,922,943 shares), 8,506,621 shares (1 January 2008: 8,506,621 shares) and 14,568,577 shares (1 January 2008: 19,668,577 shares) held by Universal Joint International Corporation and its nominee (OCBC Securities Private Ltd.), South World Investment Ltd., and Kim Eng Securities Pte. Ltd., respectively, as at 31 December 2008 and 21 January 2009.

George Edwin SyCip is deemed interested in the 122,736 shares held by CIMB-GK Securities Pte. Ltd.

	At 1 January 2008	At 31 December 2008	At 21 January 2009	Exercise price S\$	Expiry Date
<i>Options to subscribe ordinary shares of the Company at \$0.05 each</i>					
Clement Yang Ker-Cheng	2,260,800	2,260,800	2,260,800	0.138-0.205	12.09.2012- 22.04.2014
George Edwin SyCip	125,000	75,000	75,000	0.125-0.201	28.03.2009- 08.08.2010
Wilfrido Candelaria Rodriguez	735,000	735,000	735,000	0.125-0.201	05.07.2012- 08.08.2015
Gary Yang Ker-Yi	450,000	450,000	450,000	0.205	22.04.2014

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 date of appointment if later, 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) who are not controlling shareholders and their associates are eligible to receive options granted under the Medtecs Share Option Scheme (the "Scheme"). The Remuneration Committee administering the Scheme consists of:

Carol Yang Xiao-Qing (Chairman)
George Edwin SyCip
Clement Yang Ker-Cheng
Chia Wei Ho
Koh Soo Keong (appointed on 31 May 2008)

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 share, 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

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, no share options were 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 at a discount during the year and 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 2008 are as follows:

Expiry date	Exercise price (S\$)	Number of options
28 March 2009	0.201	50,000
8 August 2010	0.125	25,000
5 July 2012	0.129	362,400
12 September 2012	0.138	453,600
25 May 2013	0.188	2,404,800
29 May 2013	0.183	907,200
28 March 2014	0.201	2,530,000
22 April 2014	0.205	1,350,000
8 August 2015	0.125	545,000
		8,628,000

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:

	Exercise period	Number of shares under option				Total not exercised as at 31 December 2008	Exercise price S\$
		Granted during the year	Total granted	Total exercised	Total lapsed		
<u>Directors of the Company</u>							
Clement Yang Ker-Cheng	13.09.2003-22.04.2014	–	2,260,800	–	–	2,260,800	0.138-0.205
George Edwin SyCip	06.07.2003-08.08.2010	–	175,000	–	100,000	75,000	0.125-0.201
Wilfrido Candelaria Rodriguez	06.07.2003-08.08.2015	–	735,000	–	–	735,000	0.125-0.201
Gary Yang Ker-Yi	23.04.2005-22.04.2014	–	450,000	–	–	450,000	0.205
<u>Other employees</u>	06.07.2003-08.08.2015	–	20,602,200	1,875,000	13,620,000	5,107,200	0.125-0.201

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

Since the commencement of the employee share option plans till the end of the financial year:

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

Directors' Report

(Continued)

(Amounts in United States dollars unless otherwise stated)

7. Audit committee

The Audit Committee ("AC") carried out its functions in accordance with section 201B(5) of the Singapore Companies Act, Cap. 50, 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 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 BOD 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 BOD 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 with full attendance from all members, except for Koh Soo Keong who attended only the meetings following his appointment on 31 May 2008 and Chia Wei Ho and Carol Yang Xiao-Qing who each missed one meeting. 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.

Directors' Report

(Continued)

(Amounts in United States dollars unless otherwise stated)

8. Auditors

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

On behalf of the Board of Directors:

CLEMENT YANG KER-CHENG
Director

WILFRIDO CANDELARIA RODRIGUEZ
Director

Makati City, Philippines
12 March 2009

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 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 2008 and the results of the business, changes in equity and cash flow of the Group and the 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
12 March 2009

Independent Auditors' Report to the Members of Medtecs International Corporation Limited

We have audited the accompanying 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 2008, the profit and loss accounts and the statements of changes in equity of the Group and the Company and the consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards. This responsibility includes devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition; and transactions are properly authorized and that they are recorded as necessary to permit the preparation of true and fair profit and loss account and balance sheet and to maintain accountability of assets; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report to the Members of Medtecs International Corporation Limited

In our opinion, the consolidated financial statements of the Group and the balance sheets, profit and loss accounts and statements of changes in equity of the Company are properly drawn up in accordance with Singapore Financial Reporting Standards so as to present fairly, in all material aspects, the state of affairs of the Group and of the Company as at 31 December 2008 and the results, changes in equity and cash flow of the Group and the changes in equity of the Company for the year ended on that date.

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

Makati City, Philippines
12 March 2009

Balance Sheets

AS AT 31 DECEMBER 2008
(Amounts in United States dollars)

	Note	Group		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Assets					
Non-current assets					
Property, plant and equipment	6	33,546	24,938	2,064	2,328
Assets held for leasing	7	2,528	2,571	–	–
Investment in subsidiaries	8	–	–	31,850	31,248
Goodwill	9	1,015	1,015	–	–
Deferred tax assets	25	481	1,017	–	1
Long-term receivables (non-trade)	11	–	4,000	–	4,000
Other non-current assets	12	1,694	3,116	96	128
		<u>39,264</u>	<u>36,657</u>	<u>34,010</u>	<u>37,705</u>
Current assets					
Inventories	13	25,763	27,806	862	1,150
Trade receivables	14	13,859	14,559	4,515	4,576
Other current assets	15	12,810	12,192	6,026	4,561
Due from subsidiaries (trade)	10	–	–	15,097	12,516
Due from an affiliated company (trade)	10	256	858	–	–
Due from a corporate shareholder (non-trade)	10	373	274	373	323
Long-term receivables (non-trade)	11	4,000	1,097	4,000	1,097
Fixed deposits	16	–	595	–	416
Cash and bank balances		6,639	1,714	888	77
		<u>63,700</u>	<u>59,095</u>	<u>31,761</u>	<u>24,716</u>
Total assets		<u>102,964</u>	<u>95,752</u>	<u>65,771</u>	<u>62,421</u>

Balance Sheets

(Continued)

AS AT 31 DECEMBER 2008
(Amounts in United States dollars)

Note	Group		Company		
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	
Equity and liabilities					
Current liabilities					
Trade payables and other current liabilities	17	12,310	13,013	3,377	3,053
Due to subsidiaries (trade)	10	–	–	14,163	19,709
Term loans (current portion)	18	2,550	3,750	2,550	3,750
Trust receipts and acceptances payable	18	2,406	4,994	1,550	1,626
Bank loans	18	20,341	25,436	2,020	3,000
Income tax payable		208	374	–	4
		<u>37,815</u>	<u>47,567</u>	<u>23,660</u>	<u>31,142</u>
Net current assets (liabilities)		<u>25,885</u>	<u>11,528</u>	<u>8,101</u>	<u>(6,426)</u>
Non-current liabilities					
Term loans	18	16,254	251	16,184	–
Pension benefits obligation	21	85	132	42	54
Deferred tax liabilities	25	462	445	–	1
		<u>16,801</u>	<u>828</u>	<u>16,226</u>	<u>55</u>
Total liabilities		<u>54,616</u>	<u>48,395</u>	<u>39,886</u>	<u>31,197</u>
Net assets		<u>48,348</u>	<u>47,357</u>	<u>25,885</u>	<u>31,224</u>
Equity attributable to equity holders of the Company					
Share capital	3	21,745	21,745	21,745	21,745
Share premium		4,737	4,737	4,737	4,737
Employee share option reserve	4	237	237	237	237
Equity component of convertible bonds	5	267	267	267	267
Foreign currency translation reserves	5	351	422	–	–
Revenue reserves (deficit)	5	18,939	17,962	(1,101)	4,238
		<u>46,276</u>	<u>45,370</u>	<u>25,885</u>	<u>31,224</u>
Minority interests		<u>2,072</u>	<u>1,987</u>	<u>–</u>	<u>–</u>
Total equity		<u>48,348</u>	<u>47,357</u>	<u>25,885</u>	<u>31,224</u>
Total equity and liabilities		<u>102,964</u>	<u>95,752</u>	<u>65,771</u>	<u>62,421</u>

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

Consolidated Profit and Loss Accounts

FOR THE YEAR ENDED 31 DECEMBER 2008
(Amounts in United States dollars)

	Note	Group		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Revenue	19	80,707	91,329	2,781	1,105
Costs of sales and services		(69,818)	(79,604)	(2,677)	(1,467)
Gross profit (loss)		10,889	11,725	104	(362)
Other items of income					
Other income - net	20	1,400	1,073	1,908	2,951
Financial income	22	1,408	765	958	371
Other items of expense					
Distribution and selling expenses		(2,221)	(2,222)	(512)	(236)
Administrative expenses		(6,889)	(6,300)	(7,105)	(1,705)
Financial expenses	23	(2,797)	(3,171)	(692)	(749)
Profit (loss) before tax	24	1,790	1,870	(5,339)	270
Income tax expense	25	772	821	–	448
Net profit (loss) for the year		1,018	1,049	(5,339)	(178)
Attributable to:					
Equity holders of the Company		977	1,000	(5,339)	(178)
Minority interests		41	49	–	–
Net profit (loss) for the year		1,018	1,049	(5,339)	(178)
Earnings per share attributable to the equity holders of the Company (cents per share)	26				
- basic		0.225	0.270	–	–
- fully diluted		0.225	0.270	–	–

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

Statements of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2008
(Amounts in United States dollars)

2008 Group	Attributable to equity holders of the Company							Minority interests	Total equity
	Equity								
	Share capital (Note 3)	Share premium	Employee share option reserve (Note 4)	component of convertible bonds (Note 5)	Foreign currency translation reserves (Note 5)	Revenue reserves (Note 5)	Total reserves		
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Opening balance at 1 January 2008	21,745	4,737	237	267	422	17,962	18,384	1,987	47,357
Net profit (loss) directly recognised in equity:									
Translation adjustments	–	–	–	–	(71)	–	(71)	44	(27)
Net profit for the year	–	–	–	–	–	977	977	41	1,018
Total recognised income and expenses for the year	–	–	–	–	(71)	977	906	85	991
Closing balance at 31 December 2008	21,745	4,737	237	267	351	18,939	19,290	2,072	48,348

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

Statements of Changes in Equity

(Continued)

FOR THE YEAR ENDED 31 DECEMBER 2008
(Amounts in United States dollars)

	Attributable to equity holders of the Company							Minority interests	Total equity
	Share capital (Note 3)	Share premium	Employee share option reserve (Note 4)	Equity component of convertible bonds (Note 5)	Foreign currency translation reserves (Note 5)	Revenue reserves (Note 5)	Total reserves		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2007 Group									
Opening balance at 1 January 2007	18,256	1,712	237	357	(138)	17,327	17,189	1,994	39,745
Net profit (loss) directly recognised in equity:									
Translation adjustments	–	–	–	–	560	–	560	(56)	504
Net profit for the year	–	–	–	–	–	1,000	1,000	49	1,049
Total recognised income and expenses for the year	–	–	–	–	560	1,000	1,560	(7)	1,553
Share issuance	3,489	3,025	–	–	–	–	–	–	6,514
Redemption of convertible bonds - exercise of put options	–	–	–	(90)	–	–	–	–	(90)
Dividends paid	–	–	–	–	–	(365)	(365)	–	(365)
Closing balance at 31 December 2007	21,745	4,737	237	267	422	17,962	18,384	1,987	47,357

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

Statements of Changes in Equity

(Continued)

FOR THE YEAR ENDED 31 DECEMBER 2008 and 2007
(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	Revenue reserves (deficit) (Note 5) \$'000	Total reserves \$'000	Total equity \$'000
Opening balance at 1 January 2007	18,256	1,712	237	357	4,781	4,781	25,343
Share issue	3,489	3,025	–	–	–	–	6,514
Net loss for the year	–	–	–	–	(178)	(178)	(178)
Redemption of convertible bonds - exercise of put options	–	–	–	(90)	–	–	(90)
Dividends paid	–	–	–	–	(365)	(365)	(365)
Balance at 31 December 2007 and 1 January 2008	21,745	4,737	237	267	4,238	4,238	31,224
Net loss for the year	–	–	–	–	(5,339)	(5,339)	(5,339)
Closing balance at 31 December 2008	21,745	4,737	237	267	(1,101)	(1,101)	25,885

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

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2008
(Amounts in United States dollars)

	Note	2008 \$'000	2007 \$'000
Operating activities			
Profit before tax		1,790	1,870
Adjustments for:			
Depreciation	6	2,191	2,103
Interest expense	23	1,959	2,212
Amortisation of assets held for leasing	24	1,405	1,674
Other finance costs	23	747	889
Impairment loss on doubtful trade receivables	14	112	198
Amortisation of transaction costs	23	91	32
Loss on disposal of property, plant and equipment	20	77	6
Accretion of discount on convertible bonds		–	38
Provision for inventory obsolescence	13	–	115
Write off of inventories		–	504
Impairment loss on long-term receivables	11	–	28
Impairment loss on goodwill	9	–	110
Debt settlement income		–	(5)
Realised gain on change in fair values of the embedded options		–	(66)
Write back of impairment loss on doubtful trade receivables		(16)	(88)
Fair value interest income	20	(28)	(96)
Movements in pension benefits obligation	21	(47)	(10)
Interest income	22	(1,408)	(765)
Operating cash flows before changes in working capital		6,873	8,749
(Increase) decrease in:			
Inventories		2,070	(2,065)
Trade receivables		622	4,463
Other current assets		(618)	(3,802)
Due from an affiliated company, net		602	(549)
Due from a corporate shareholder, net		(99)	432
Fixed deposits		595	305
Decrease in:			
Trade payables and other current liabilities		(698)	(3,058)
Trust receipts and acceptances payable		(2,588)	(2,330)
Cash flows from operations		6,759	2,145
Interest received		1,408	765
Other finance cost paid		(747)	(889)
Income taxes paid		(385)	(942)
Net cash flows from operating activities		7,035	1,079

Consolidated Cash Flow Statement

(Continued)

FOR THE YEAR ENDED 31 DECEMBER 2008
(Amounts in United States dollars)

	Note	2008 \$'000	2007 \$'000
Investing activities			
Purchases of property, plant and equipment	6	(10,953)	(3,210)
Collection of long-term receivables		1,125	2,213
Proceeds from disposal of property, plant and equipment		–	6
Decrease (increase) in:			
Long-term receivables		–	(4,000)
Assets held for leasing		(1,362)	(1,390)
Fixed deposits		–	725
Other non-current assets		1,422	(686)
Net cash flows used in investing activities		(9,768)	(6,342)
Financing activities			
Proceeds from issue of new shares, net of expenses		–	6,514
Net proceeds from term loans		14,712	(8,436)
Net payments from short-term bank loans		(5,095)	10,433
Net payment on repurchase of convertible bonds		–	(1,086)
Dividends paid	27	–	(365)
Interest paid		(1,959)	(2,212)
Net cash flows from financing activities		7,658	4,848
Net increase (decrease) in cash and bank balances		4,925	(415)
Cash and bank balances at 1 January		1,714	2,129
Cash and bank balances at 31 December		6,639	1,714

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

Notes to the Financial Statements

31 DECEMBER 2008

(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 and incorporated in Bermuda and is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST").

The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at 7th floor, The Peninsula Court, 8735 Paseo de Roxas, 1226 Makati City, Philippines.

The principal activity of the Company is 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 8 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet, profit and loss accounts 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 for certain leasehold building and improvements carried at revalued amount.

The financial statements are presented in United States dollar (US\$) and values in the tables are rounded to the nearest thousand (\$'000) as indicated.

2.2 Changes in accounting policies

The following INT FRS are effective for annual periods beginning 1 January 2008:

- INT FRS 111 *FRS 102 - Group and Treasury Share Transactions*
- INT FRS 112 *Service Concession Arrangements*
- INT FRS 1145 *FRS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*

On 1 January 2008, the Group adopted INT 111 *FRS 102 - Group and Treasury Share Transaction*, is effective for annual periods beginning on or after 1 March 2007. *INT FRS 111* clarifies that the requirement of *FRS 102 Share-based Payment* to account for the goods and services received applies to arrangements involving equity instruments of the reporting entity's parent.

The adoption of this INT FRS did not result in any substantial change to the Group's accounting policies nor any significant impact on these individual statements.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Future changes in accounting policies

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

<i>Reference</i>	<i>Description</i>	<i>Effective for annual periods beginning on or after</i>
INT FRS 113	<i>Customer Loyalty Programmes</i>	1 July 2008
FRS 1	<i>Presentation of Financial Statements - Revised</i>	1 January 2009
	<i>Presentation of Financial Statements - Amendments relating to the Puttable Financial Instruments and Obligations Arising on Liquidation</i>	1 January 2009
FRS 23	<i>Borrowing Costs</i>	1 January 2009
FRS 32	<i>Financial Instruments: Presentation - Amendments relating to Puttable Financial Instruments and Obligations Arising on Liquidation</i>	1 January 2009
FRS 102	<i>Share-based Payment - Vesting Conditions and Cancellations</i>	1 January 2009
FRS 108	<i>Operating Segments</i>	1 January 2009

The directors expect that the adoption of the above pronouncements will have no material impact to the financial statements in the period of initial application, except as indicated below.

FRS 1, *Presentation of Financial Statements - Revised*

The revised FRS 1 requires owner and non-owner changes in equity to be presented separately. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line item. In addition, the revised standard introduces the statement of comprehensive income. It presents all items of income and expense recognised in profit and loss, together with all other items of income and expense, either in one single statement, or in two linked statements. The Group is currently evaluating the format to adopt.

FRS 23, *Borrowing Costs*

FRS 23 has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

FRS 102, *Share-based Payment - Vesting Conditions and Cancellations*

FRS 102 has been amended to restrict the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions which have to be taken into account when estimating the fair value of the equity instrument granted. In case that an award does not vest as a result of failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The change in accounting policy is to be

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Future changes in accounting policies (Continued)

applied retrospectively. The Group is currently assessing the possible impact of the adoption of these amendments on its financial statements.

FRS 108, *Operating Segments*

FRS 108 requires entities to disclose segment information based on the information reviewed by the entity's chief operating decision maker. The impact of this standard on the other segment disclosures is still to be determined. Since this standard deals only with disclosure requirements on segment information, it will have no impact on the financial position and results of the Group when implemented in 2009.

2.4 Significant accounting estimates and judgments

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the reporting date. However, 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.

a) Critical judgments made in applying accounting policies

The following are the judgments made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements:

i) Determination of functional currency

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

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

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

iii) Determination whether an arrangement contains a lease

The Group has entered into leases on its manufacturing plants, other property, plant and equipment and assets held for leasing with various parties.

The Group uses its judgment in determining whether an arrangement is, or contains, a lease based on the substance of the arrangement and makes assessment of whether the arrangement is dependent on the use of a specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risks and rewards incidental to ownership to the Group.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Significant accounting estimates and judgments (Continued)

a) Critical judgments made in applying accounting policies (Continued)

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

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

b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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:

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

The Group determines whether goodwill, property, plant and equipment, 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 amount of the Group's goodwill, property, plant and equipment, and assets held for leasing as at 31 December 2008 was about \$1.0 million (2007: \$1.0 million), about \$33.5 million (2007: \$24.9 million), and about \$2.5 million (2007: \$2.6 million), respectively. The carrying amount of the Company's goodwill, property, plant and equipment, and assets held for leasing as at 31 December 2008 was nil (2007: nil), about \$2.1 million (2007: \$2.3 million), and nil (2007: nil), respectively. More details are given in Notes 6, 7 and 9.

- ii) Income taxes

The Group has exposure to income taxes in numerous jurisdictions. Significant 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. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. 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 at 31 December 2008 was \$208,000 (2007: \$374,000). The carrying amount of the Company's income tax payable as at 31 December 2008 was nil (2007: \$4,000).

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Significant accounting estimates and judgments (Continued)

b) Key sources of estimation uncertainty (Continued)

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 as at 31 December 2008 was \$481,000 (2007: \$1.0 million). The carrying amount of the Company's recognised deferred tax assets as at 31 December 2008 was nil (2007: \$1,000). More details are given in Note 25.

iv) Fair value of embedded derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The carrying amount of the Group's and Company's embedded call options and embedded put options was nil as at 31 December 2008 and 2007.

v) Impairment of loans and receivables

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. The Group first assesses whether objective evidence of impairment exist individually for financial asset 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 behaviour and known market factors. 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 for 2008 amounted to \$112,000 (2007: \$198,000). The carrying amount of the Group's trade receivables, net of allowance for impairment losses on doubtful trade receivables, as at 31 December 2008 was about \$13.9 million (2007: \$14.6 million). The carrying amount of the Company's trade receivables, net of allowance for impairment losses on doubtful trade receivables, as at 31 December 2008 was about \$4.5 million (2007: \$4.6 million). More details are given in Note 14.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Significant accounting estimates and judgments (Continued)

b) Key sources of estimation uncertainty (Continued)

vi) Useful lives of property, plant and equipment

The Group estimates the useful lives of its property, plant and equipment 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 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 as at 31 December 2008 was about \$33.5 million (2007: \$24.9 million). The carrying amount of the Company's property, plant and equipment as at 31 December 2008 was about \$2.1 million (2007: \$2.3 million). More details are given in Note 6.

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 includes 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 2008 was about \$85,000 (2007: \$132,000). The carrying amount of the Company's pension benefits obligation as at 31 December 2008 was about \$42,000 (2007: \$54,000). 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 2008 and 2007 was \$237,000. More details are given in Note 4.

ix) Contingencies

In the ordinary course of business, certain companies in the group are defendants 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 counsel 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 the advise by its legal counsel, that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of its operations, financial position or liquidity of the Group. It is possible, however that the 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.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Functional and foreign currency

a) Functional and presentation currency

The financial statements are expressed in US\$, which is the Company's functional and presentation 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\$.

b) Foreign currency transactions

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 ruling at transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at balance sheet date. 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 rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date 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 a separate component of equity as foreign currency translation reserve in the consolidated balance sheet and recognised in the consolidated profit and loss accounts on disposal of the subsidiary. 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 for each balance sheet presented are translated at the closing rate ruling at that balance sheet date; and
- Income and expenses for each profit and loss account are translated at average monthly exchange rates for the year which approximates the exchange rates at the dates of the transactions.

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

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 balance sheet date.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Functional and foreign currency (Continued)

c) Foreign currency translation (Continued)

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 the foreign operation is recognised in the profit and loss accounts as a component of the gain or loss on disposal.

2.6 Subsidiaries and principles of consolidation

a) Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the Board of Directors.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less accumulated impairment losses.

b) Basis of consolidation

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

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets are eliminated in full.

Acquisitions of subsidiaries are accounted for using the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Adjustments to those fair values relating to previously held interests are treated as revaluation and recognised in equity. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill in the balance sheet. The accounting policy for goodwill is set out in Note 2.10. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised in the profit and loss account on the date of acquisition. Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. They are presented in the consolidated balance sheet within equity, separate from the parent's equity and are separately disclosed in the consolidated profit and loss accounts.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Subsidiaries and principles of consolidation (Continued)

b) Basis of consolidation (Continued)

Subsidiaries are fully 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.

2.7 Related parties

A related party is a company, not being a subsidiary or associated company, in which one or more of the directors or shareholders of the Company have the ability to control, directly or indirectly, the other party or the ability to exercise significant influence over the other party in making financial and operating decisions. A related party is also considered related to the Group if the party is a member of the key management personnel of the Company or the party is a close member of the family of any individual related to the key management personnel.

2.8 Property, plant and equipment

a) Recognition and measurement

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are stated at cost or revaluation less accumulated depreciation and any accumulated impairment losses. The revalued leasehold buildings and improvements is stated at the valuation when it was first revalued in 1995.

When an asset is revalued, any increase in the carrying amount is credited directly to the asset revaluation reserve. However, the increase is recognised in the profit and loss accounts to the extent that it reverses a revaluation decrease of the same asset previously recognised in the profit and loss accounts. When an asset's carrying amount is decreased as a result of revaluation, the decrease is recognised in the profit and loss accounts. However, the decrease is debited directly to the asset revaluation reserve to the extent of any credit balance existing in the reserve in respect of that asset.

Any accumulated depreciation as at revaluation date is eliminated against gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve, in respect of an asset, is transferred directly to accumulated profits on retirement or disposal of the asset.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 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 equipment, except leasehold buildings and improvements, have been taken as follows:

	<u>Years</u>
Machinery and equipment	10 - 15
Furniture, fixtures and equipment	3 - 10
Transportation equipment	5 - 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 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 financial 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 is included in the profit and loss accounts in the year the asset is derecognised.

2.9 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 three years.

Assets held for leasing are derecognized when either 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 recognized in the profit and loss accounts in the year of retirement or disposal.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Intangible assets

a) 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 is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

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, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the cash-generating unit. 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 values of the operation 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 2.5.

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.

b) Research and development cost

Research costs are expensed as incurred. An intangible asset arising from development cost on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development.

The carrying value of development cost is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year. Upon completion, the development cost is amortised over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 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. In assessing value in use, the estimated future cash flows are discounted to their present value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount.

Impairment losses are recognised in the profit and loss accounts, except for assets that are previously revalued where the revaluation was taken to equity. In this case, the impairment is also recognised in the equity up to the amount of any previous revaluation.

An 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. 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, net of depreciation and amortisation, 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.

The Group does not reverse, in subsequent period, any impairment loss recognised for goodwill.

2.12 Financial assets

a) Classification

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.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

a) Classification (Continued)

i) Financial assets at fair value through profit or loss

Financial assets held for trading are classified as financial assets at fair value through profit or loss. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

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.

The Group does not designate any financial assets not held for trading as financial assets at fair value through profit or loss.

ii) Embedded derivatives

An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
- the hybrid or combined instrument is not recognised at fair value through profit or loss.

Derivative instruments are initially recognised at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Gains and losses from changes in fair value of these derivatives are recognised in the profit and loss accounts.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. 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 2008 and 2007, the Group has no bifurcated embedded derivatives.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

a) Classification (Continued)

iii) Held-to-maturity investments

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 2008 and 2007, the Group has no held-to-maturity investments.

iv) 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. Such assets are carried at amortised cost, using the effective interest rate method, less impairment losses. Gains and losses are recognised in profit and loss accounts when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are classified as current assets when it is expected to be realised within twelve months after the balance sheet date 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 affiliated companies and a corporate shareholder

v) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are not classified in any of the other categories. After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised directly in the fair value adjustment reserve account in equity, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest rate method are recognised in the profit and loss accounts. The cumulative gain or loss previously recognised in equity is recognised in the profit and loss accounts when the financial asset is derecognised.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

a) Classification (Continued)

v) Available-for-sale financial assets (Continued)

The fair value of investments that are actively traded in organised financial markets is determined by reference to the relevant exchange's quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment losses.

As at December 31, 2008 and 2007, the Group has no available-for-sale investments.

b) 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 or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

c) 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 financial year-end.

d) Determination of fair values

The fair values of the quoted financial assets are based on current bid prices. If the market for a financial asset is not effective, the Group establishes fair value by using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

e) 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 amount.

f) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired.

i) Assets carried at amortised cost

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. 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.

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. Any subsequent reversal of an impairment loss is recognised in the profit and loss accounts, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

ii) 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 an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

iii) Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit and loss accounts, is transferred from equity to the profit and loss accounts. Reversals of impairment loss in respect of equity instruments classified as available-for-sale are not recognised in the profit and loss accounts. Reversals of impairment losses on debt instruments are reversed through the profit and loss accounts if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss accounts.

A financial asset is derecognised where:

- The contractual rights to receive cash flows from the asset have expired;
- 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.

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.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Cash and bank balances

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 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.

2.14 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 the 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.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.15 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, short-term bank loans and convertible bonds. Financial liabilities are recognised in the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instruments. Financial liabilities are initially recognised at fair value of consideration received less directly attributable transactions costs and subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the profit and loss accounts when the liabilities are derecognised as well as through the amortisation process. The liabilities are derecognised when the obligations under the liabilities are discharged or cancelled or has expired.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial liabilities (Continued)

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.

2.16 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.

2.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. 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 balance sheet date 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 balance sheet date and before the financial statements are authorised for issue. Other borrowings due to be settled more than 12 months after the balance sheet date are presented as "Term loans" under non-current liabilities in the balance sheets.

As the convertible bonds contain a liability and an equity component, the proceeds from the issue is allocated between the two components and accounted for separately. The allocated value of the liability component includes the discounted cash flows of the convertible bonds plus the fair value on issue date of the embedded call and put options of the issuer and the bondholders, respectively. The remainder of the proceeds is allocated to the equity component.

Subsequent to issuance, the convertible bonds is accounted for at amortised cost (i.e., the initial carrying amount is accreted, on an effective yield basis, to the convertible bonds' redemption value). The embedded call and put options will be carried at fair value, with changes in fair values recognised directly in the profit and loss accounts. The value of the equity component is not changed in subsequent periods.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Borrowings (Continued)

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 lapses, or the convertible bonds are repaid or retired, the equity component remains in equity.

Issue costs are apportioned between the liability and equity component of the convertible bonds based on the respective carrying amounts of the liability and equity components when the instrument was first issued.

2.18 Provisions

Provisions are recognised when the Group has a present obligation 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 each balance sheet date 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.

2.19 Employee benefits

a) Defined pension plans

The Group operates defined pension plans. The pension benefits in the Philippines are unfunded and noncontributory 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 services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Pension benefit expense includes current service cost, interest cost, experience adjustments and changes in actuarial assumptions. All actuarial gains and losses are recognised in the period in which they occur directly to the profit and loss accounts.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

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

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employee benefits (Continued)

b) 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 profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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. 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. 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.

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

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

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

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employee benefits (Continued)

b) Employee share option plans (Continued)

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.

c) 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.

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 balance sheet date.

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 balance sheet date are discounted to present value.

2.20 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. 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.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 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 2.22).

2.21 Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, where the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. The Group recognises its interest in joint venture using the equity method. This accounting policy does not apply to jointly controlled assets and jointly controlled operations.

2.22 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. Revenue is measured at the fair value of consideration received or receivable.

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

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

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

c) Interest income

Interest income is recognised using the effective interest rate method.

d) Dividends

Dividend income is recognised when the Group's right to receive the payment is established.

e) Rental income

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

2.23 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, 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.

2.24 Income taxes

a) Current tax

Current 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 at the balance sheet date.

b) Deferred tax

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Income taxes (Continued)

b) Deferred tax (Continued)

- 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 (other than those mentioned above), 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 balance sheet date 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 balance sheet date.

Deferred tax relating to items recognised directly in equity is recognised directly in equity.

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.

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.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2.26 Share capital and share issue expenses

Ordinary shares are classified as equity.

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

2.27 Dividends

Dividends are recorded in the financial year in which they are approved by the shareholders.

2.28 Contingencies

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

Contingent liabilities and assets are not recognised in the balance sheet of the Group.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

3. SHARE CAPITAL

	Group and Company	
	2008 \$'000	2007 \$'000
Authorised		
- 1,000,000,000 ordinary shares of \$0.05 each	50,000	50,000
Issued and paid up		
As at 1 January		
- 434,905,705 (2007: 365,119,997) ordinary shares of \$0.05 each	21,745	18,256
Issued during the year		
- nil (2007: 69,785,708 ordinary shares of \$0.05 each for cash at a premium of \$0.04 each)	—	3,489
As at 31 December	21,745	21,745

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

The Company has employee share option plan (see Note 21a) under which options to subscribe for the Company's ordinary shares have been granted to employees of the Group.

4. EMPLOYEE SHARE OPTION RESERVE

The employee share option reserve represents the equity-settled share options granted to employees (see 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	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
As at 31 December	237	237	237	237

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

5. REVENUE AND OTHER RESERVES

a) Revenue reserves (deficit)

	2008 \$'000	2007 \$'000
Revenue reserves are retained by:		
Company	(1,101)	4,238
Subsidiaries	20,040	13,724
	<u>18,939</u>	<u>17,962</u>

b) Foreign currency translation reserves

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
At 1 January	422	(138)	–	–
Net effect of exchange differences arising from translation of financial statement of foreign operations	(71)	560	–	–
At 31 December	<u>351</u>	<u>422</u>	<u>–</u>	<u>–</u>

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.

c) Equity component of convertible bonds

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
As at 1 January	267	357	267	357
Repurchase of convertible bonds	–	(90)	–	(90)
As at 31 December	<u>267</u>	<u>267</u>	<u>267</u>	<u>267</u>

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

Group	At revaluation		At cost				Total \$'000
	Leasehold buildings and improvements \$'000	Leasehold buildings and improvements \$'000	Machinery and equipment \$'000	Furniture, fixtures and equipment \$'000	Leasehold improvements \$'000	Transportation equipment \$'000	
Cost or valuation:							
As at 1 January 2007	946	13,899	22,133	715	2,626	1,393	41,712
Additions	–	2,306	855	18	6	25	3,210
Disposals	–	–	(391)	(35)	(633)	(75)	(1,134)
Reclassifications	–	2,778	(1,576)	47	(1,249)	–	–
Translation adjustments	–	(165)	41	173	–	11	60
As at 31 December 2007 and 1 January 2008	946	18,818	21,062	918	750	1,354	43,848
Additions	–	6,103	4,665	13	134	38	10,953
Disposals	–	–	(124)	–	–	(15)	(139)
Translation adjustments	–	158	155	27	–	12	352
As at 31 December 2008	946	25,079	25,758	958	884	1,389	55,014
Accumulated depreciation:							
As at 1 January 2007	946	3,093	10,739	527	1,850	693	17,848
Depreciation charge for the year	–	427	1,375	94	97	110	2,103
Disposals	–	–	(379)	(35)	(633)	(75)	(1,122)
Reclassifications	–	188	374	18	(580)	–	–
Translation adjustments	–	–	13	1	1	66	81
As at 31 December 2007 and 1 January 2008	946	3,708	12,122	605	735	794	18,910
Depreciation charge for the year	–	685	1,258	93	70	85	2,191
Disposals	–	–	(47)	–	–	(15)	(62)
Translation adjustments	–	259	142	6	–	22	429
As at 31 December 2008	946	4,652	13,475	704	805	886	21,468
Net carrying amount:							
As at 31 December 2007	–	15,110	8,940	313	15	560	24,938
As at 31 December 2008	–	20,427	12,283	254	79	503	33,546

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 2007	3,302	3,391	137	87	6,917
Disposals	–	(9)	–	–	(9)
As at 31 December 2007 and 1 January 2008	3,302	3,382	137	87	6,908
Additions	–	5	–	–	5
As at 31 December 2008	3,302	3,387	137	87	6,913
Accumulated depreciation:					
As at 1 January 2007	1,206	2,788	34	78	4,106
Depreciation charge for the year	177	291	6	9	483
Disposals	–	(9)	–	–	(9)
As at 31 December 2007 and 1 January 2008	1,383	3,070	40	87	4,580
Depreciation charge for the year	165	99	5	–	269
As at 31 December 2008	1,548	3,169	45	87	4,849
Net carrying amount:					
As at 31 December 2007	1,919	312	97	–	2,328
As at 31 December 2008	1,754	218	92	–	2,064

One of the leasehold buildings and improvements of the Group is stated at the valuation when it was first revalued in 1995. Had the leasehold building and improvements been stated at cost, the net book value would have been nil as at 31 December 2008 (2007: nil).

A building and certain machinery and equipment with net book value of about \$8.0 million (2007: \$63,000) as at 31 December 2008, were mortgaged to secure various foreign and local bank loans as mentioned in Note 18.

Capitalisation of borrowing costs

The cost of the Group's property, plant and equipment includes borrowing costs arising from bank loans borrowed specifically for the construction of a plant. During the financial year, the borrowing costs capitalised as part of the cost of property, plant and equipment amounted to \$34,000 (2007: nil).

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

7. ASSETS HELD FOR LEASING

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Assets held for leasing	11,851	10,782	–	–
Accumulated amortisation	(10,234)	(8,829)	–	–
Translation adjustment	911	618	–	–
	<u>2,528</u>	<u>2,571</u>	<u>–</u>	<u>–</u>

8. INVESTMENT IN SUBSIDIARIES

(a) Investment in Subsidiaries comprise:

	2008 \$'000	2007 \$'000
Unquoted equity shares, at cost	<u>31,850</u>	<u>31,248</u>

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

8. 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	
			2008	2007	2008	2007
			%	%	\$'000	\$'000
Held by the Company						
Universal Weavers Corporation *	Manufacturing and trading of woven and knitted fabrics	Philippines	100.0	100.0	5,857 ^(e)	5,857 ^(e)
Clement Textile & International Corporation *	Manufacturing and trading of hospital textiles and garments, pillow cases, bed sheets, gowns and apparel	Philippines	100.0	100.0	2,018	2,018
Contex Corporation *	Trading of hospital textiles and garments, pillow cases, bed sheets, gowns and apparel	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	87.8 ^(b)	87.8 ^(b)	15,006 ^{(c) (e)}	15,006 ^{(c) (e)}
Medtex Corporation *	Manufacturing and sale of elastic bandages, garters and other garment products	Philippines	100.0	100.0	474 ^(e)	474 ^(e)
Medtecs (Cambodia) Corporation Limited ****	Manufacturing of medical consumables and provision of procurement services	Cambodia	100.0	100.0	80 ^(e)	80 ^(e)
Medtecs (Asia Pacific) Pte. Ltd. **	Sale of woven and knitted fabrics and other made-up articles of textile products	Singapore	100.0	100.0	16 ^(e)	16 ^(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	1,073	1,073

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

8. 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	
			2008	2007	2008	2007
			%	%	\$'000	\$'000
Medtecs (Far East) Limited ***	Sale of woven and knitted fabrics and other made-up articles of textile products	Hong Kong Special Administrative Region	100.0	100.0	1	1
Cooper Development Limited ****	Investment holding	Malaysia	100.0	100.0	3,819 ^(e)	3,819 ^(e)
Greenway Teck Corporation ****	Manufacturing and trading of medical consumables	British Virgin Islands	100.0 ^(f)	100.0	1,652 ^(f)	1,050
<u>Held through subsidiaries</u>						
Hangzhou Jincheng Medical Supplies Manufacture Co., Ltd. (Jincheng) ***	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	100.0	–	–
Zibo Lianheng Textiles Co., Ltd. (Lianheng) ***	Manufacturing and trading of woven fabrics	People's Republic of China	51.1 ^(d)	51.1 ^(d)	–	–
Zibo Liancheng Textiles & Garments Co., Ltd. ***	Manufacturing and trading of woven fabrics	People's Republic of China	100.0	100.0	–	–
					31,850	31,248

(a) Certain shares are held by minority shareholders which are equivalent to 1.2% of the total paid-up capital.

(b) Certain shares are held by minority shareholders which are equivalent to 12.2% of the total paid-up capital.

(c) Includes long-term advances regarded as part of the net investment amounting to about \$4.1 million.

(d) Certain shares are held by minority shareholders which are equivalent to 48.9% of the total paid-up capital.

(e) Includes equity-settled share options granted to employees of the subsidiaries which were regarded as capital contribution to the subsidiaries.

(f) The Company infused \$602,000 capital in Greenway Teck Corporation for its wholly owned subsidiary, Shanghai Greenway Medical Apparatus Co., Ltd.

* Audited by SyCip Gorres Velayo & Co., a member firm of Ernst & Young Global Limited in the Philippines

** Audited by member firms of Ernst & Young Global Limited in the respective countries

*** Audited by other auditors

**** Not required to be audited by the laws of the respective country of incorporation

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

9. GOODWILL

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
As at 1 January	1,015	1,123	–	–
Net exchange difference	–	2	–	–
Impairment loss on goodwill	–	(110)	–	–
As at 31 December	1,015	1,015	–	–

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

	2008 \$'000	2007 \$'000
Manufacturing	508	508
Hospital services	507	507
	1,015	1,015

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 2008 is 5.0% (2007: 7.6%) and the forecasted growth rates used to extrapolate cash flows beyond the five-year period in 2008 is 15.0% (2007: 16.0%) which are based on management's reasonable estimates of the Group's manufacturing operations given its existing business model and its expansion program in China.

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

Budgeted gross margin

Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

9. GOODWILL (Continued)

Pre-tax discount rate

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 yield on a ten-year government bond at the beginning of the budgeted year.

An impairment loss of nil (2007: \$110,000) is included within "Administrative expenses" in the profit and loss accounts. The impairment loss arises from the hospital services segment following a reduction in the number of hospitals serviced by the Group to focus on higher margined hospital contracts.

10. DUE FROM AFFILIATED COMPANIES (TRADE) / A CORPORATE SHAREHOLDER (NON-TRADE) / SUBSIDIARIES

The current balances of amounts due from affiliated companies and a corporate shareholder are unsecured, interest-bearing and are payable upon demand.

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

11. LONG-TERM RECEIVABLES (NON-TRADE)

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Long-term receivables	4,000	5,125	4,000	5,125
Due within one year	(4,000)	(1,097)	(4,000)	(1,097)
Due after one year	–	4,028	–	4,028
Less discount to net present value	–	(28)	–	(28)
	–	4,000	–	4,000

Long-term receivables amounting to \$4.0 million is interest-bearing at 10.0%, unsecured and payable in December 2009.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

12. OTHER NON-CURRENT ASSETS

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Long-term prepaid rent	733	2,360	70	87
Refundable deposits	219	300	7	7
Others	742	456	19	34
	<u>1,694</u>	<u>3,116</u>	<u>96</u>	<u>128</u>

13. INVENTORIES

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Raw materials	6,827	7,364	410	493
Work-in-progress	6,034	5,821	22	24
Finished goods	9,686	10,396	332	469
Supplies and spare parts	2,717	2,504	96	68
Goods-in-transit	499	1,721	2	96
	<u>25,763</u>	<u>27,806</u>	<u>862</u>	<u>1,150</u>
Total inventories at lower of cost and net realisable value				

During the financial year, the Group set up provision for inventory obsolescence of nil (2007: \$115,000) and wrote off nil (2007: \$504,000) of stocks which were recognised as expense in the profit and loss accounts (see 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 trusted merchandise or its sales proceeds (see Note 18).

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

14. TRADE RECEIVABLES

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Trade receivables				
Manufacturing	8,949	7,038	4,515	4,576
Hospital services	1,100	2,954	–	–
Trading	4,150	4,811	–	–
	14,199	14,803	4,515	4,576
Less allowance for impairment	(340)	(244)	–	–
	13,859	14,559	4,515	4,576

At 31 December 2008, trade receivables amounting to \$4.2 million are assigned as collateral to secure foreign bank loans.

Trade receivables

Trade receivables are noninterest-bearing and are generally on 30 to 90 days' term. They are recognised at their original invoice amounts which represents fair values on initial recognition.

Receivables that are past due but not impaired

The Group has trade receivables amounting to \$282,000 (2007: \$449,000) that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at balance sheet date is as follows:

	Group	
	2008 \$'000	2007 \$'000
Less than 30 days	132	131
30 to 60 days	150	318
Total	282	449

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 balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Group			
	<u>Collectively impaired</u>		<u>Individually impaired</u>	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Trade receivables - nominal amounts:				
Manufacturing	1,036	2,012	619	763
Hospital services	944	981	–	–
Trading	846	130	–	–
Less allowance for impairment	(138)	(68)	(202)	(176)
	<u>2,688</u>	<u>3,055</u>	<u>417</u>	<u>587</u>

Receivables that are neither past due nor impaired

As at 31 December 2008, trade receivables amounting to \$10,472 (2007: \$10,468) 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			
	<u>Collectively impaired</u>		<u>Individually impaired</u>	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
As at 1 January	68	96	176	38
Charge for the year	70	60	42	138
Written back	–	(88)	(16)	–
As at 31 December	<u>138</u>	<u>68</u>	<u>202</u>	<u>176</u>

Trade receivables that are individually determined to be impaired at the balance sheet date 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 year ended 31 December 2008, provision for impairment loss on doubtful trade receivables of \$112,000 (2007: \$198,000) (see Note 24) was recognised in the profit and loss accounts at a level considered adequate to provide for potential uncollectible receivables.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

15. OTHER CURRENT ASSETS

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Deposits	4,381	5,600	2,973	2,315
Advances to suppliers	6,333	4,160	2,662	1,867
Prepayments	861	714	304	206
Sundry receivables	766	1,426	51	134
Input tax receivable	285	129	1	3
Advances to employees	184	163	35	36
	<u>12,810</u>	<u>12,192</u>	<u>6,026</u>	<u>4,561</u>

16. FIXED DEPOSITS

Fixed deposits of nil (2007: \$595,000) are pledged in connection with credit facilities granted by a bank. In addition, the withdrawal of such fixed deposits is subject to the bank's approval in connection with overdraft facilities. The fixed deposits earn annual interest ranging from 2.0% to 5.0% in 2007.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

17. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Trade payables	5,438	6,107	193	145
Other creditors	4,544	3,942	2,583	2,530
Accrued operating expenses	2,276	2,927	554	341
Amounts due to directors (Note 28)	52	37	47	37
	<u>12,310</u>	<u>13,013</u>	<u>3,377</u>	<u>3,053</u>

Amounts due to directors are non-interest bearing and are payable on demand.

18. LOANS AND BORROWINGS

	Weighted average effective interest rate (p.a.)	Maturity	Group		Company	
			2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current:						
Trust receipts and acceptances payables (secured) (Note 13)	5.1%	2008-2009	2,406	4,994	1,550	1,626
Bank loans:						
- US\$ loans						
Secured	2.1%	2008-2009	1,000	2,500	1,000	—
Unsecured	5.6%	2008-2009	13,601	19,448	1,020	3,000
- Chinese Yuan Renminbi (RMB) loans						
Unsecured	8.2%	2008-2009	3,716	2,324	—	—
- New Taiwan Dollars (NTD) loans						
Unsecured	5.1%	2008-2009	2,024	1,164	—	—
Total short-term bank loans			<u>20,341</u>	<u>25,436</u>	<u>2,020</u>	<u>3,000</u>
Term loans (current portion)			<u>2,550</u>	<u>3,750</u>	<u>2,550</u>	<u>3,750</u>

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		Company	
			2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Non-current:						
Term loans:						
- Long-term loan (secured)	4.1%	2009-2017	19,560	3,750	19,560	3,750
Less: unamortised transaction costs			826	–	826	–
			18,734	3,750	18,734	3,750
- NTD term loans Unsecured	4.6%	2010	70	251	–	–
			18,804	4,001	18,734	3,750
Due within one year			(2,550)	(3,750)	(2,550)	(3,750)
Due after one year			16,254	251	16,184	–
Total loans and borrowings			41,551	34,431	22,304	8,376

The above borrowings are classified as follows:

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Secured	22,140	7,494	21,284	1,626
Unsecured	19,411	26,937	1,020	6,750
	41,551	34,431	22,304	8,376

Trust receipts and acceptances payable

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

US\$ term loans (current)

These loans are at floating rates, unsecured, except for \$1.0 million which is secured by a pledge of shares of a corporate shareholder.

RMB and NTD term loans (current)

These loans are at floating rate, unsecured and fully payable at various dates in the succeeding year.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

18. LOANS AND BORROWINGS (Continued)

Long-term loans

The long-term loans include syndicated loan from Taiwan banks and a long-term loan from a German bank.

The syndicated loan is carried at amortised cost using the effective interest rate method. The syndicated loan is at floating rate based on LIBOR plus a spread of 150 basis points, repriced monthly, payable in various installments from November 2009 to May 2011 and is secured by an assignment of receivables (see Note 14).

The financial covenants of the syndicated loan contain provisions on maintenance of certain financial ratios summarized as follows:

- Debt to net tangible assets ratio should not exceed 150.0%
- Interest coverage ratio should not be less than 3.5
- Net tangible assets should not be less than \$35.0 million

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.

The financial covenants of the loan contain provisions on maintenance of certain financial ratios summarized 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%

NTD term loans (non-current)

These loans are at floating rate, unsecured and fully payable at various dates in 2010.

19. REVENUE

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Manufacturing	69,095	76,787	2,781	1,105
Hospital services	9,598	8,797	–	–
Distribution and others	2,014	5,745	–	–
	<u>80,707</u>	<u>91,329</u>	<u>2,781</u>	<u>1,105</u>

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

20. OTHER INCOME - NET

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Rental income	596	341	–	–
Write back of impairment loss on doubtful trade receivables	16	88	–	–
Write off of inventories	–	(504)	–	–
Foreign exchange gain (loss)	(90)	207	9	(7)
Realised gain on change in fair values of the embedded options	–	66	–	66
Fair value interest income	28	96	30	74
Impairment loss on long-term receivables	–	(27)	–	–
Grant from government (Note 33)	162	305	–	–
Dividend income	–	–	1,790	2,793
Loss on disposal of property, plant and equipment	(77)	(6)	–	–
Scrap sales	360	417	–	–
Duties refund	224	–	–	–
Others	181	90	79	25
	<u>1,400</u>	<u>1,073</u>	<u>1,908</u>	<u>2,951</u>

21. EMPLOYEE BENEFITS

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Personnel expenses				
Wages and salaries	10,016	9,220	1,723	1,018
Pension cost	28	39	–	17
Central Provident Fund contribution	21	28	–	–
	<u>10,065</u>	<u>9,287</u>	<u>1,723</u>	<u>1,035</u>

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").

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
	2008	2008	2007	2007
	'000	S\$	'000	S\$
Outstanding at beginning of year	12,198	0.19	14,198	0.19
Forfeited	(3,570)	0.19	(2,000)	0.19
Outstanding and exercisable at end of year	8,628	0.19	12,198	0.19

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)

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:

	2008	2007
Dividend yield (%)	4.0	4.0
Expected volatility (%)	40.0	40.0
Historical volatility (%)	40.0	40.0
Risk-free interest rate (%)	4.0	4.0
Expected life of option (years)	4.8	4.8
Weighted average share price (\$)	0.1	0.1

The expected life of the 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.

b) Pension plan

This relates to the amount of pension cost 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 with 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 financial year.

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

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Service cost	16	26	6	12
Interest cost	12	13	4	5
Net actuarial gain	(57)	(72)	(15)	(27)
	(29)	(33)	(5)	(10)

The amount recognised in the balance sheet arises from the Group's and the Company's unfunded obligation in respect of its defined benefit plan of \$85,000 (2007: \$132,000) and \$42,000 (2007: \$54,000), respectively.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

21. EMPLOYEE BENEFITS (Continued)

b) Pension plan (Continued)

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

	Unfunded pension plan			
	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Present value of pension benefits obligation				
As at 1 January	132	142	54	55
Current service cost	16	26	6	12
Interest cost	12	13	4	5
Net actuarial gain	(57)	(72)	(15)	(27)
Translation adjustment	(18)	23	(7)	9
As at 31 December	85	132	42	54

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

	Group		Company	
	2008	2007	2008	2007
Discount rate	12.4 -19.9%	10.3%	12.4%	10.3%
Salary increase rate	5.0%	2.5%	5.0%	2.5%

The history of experience adjustments is as follows:

	Group		
	2008	2007	2006
	\$'000	\$'000	\$'000
Unfunded defined benefit obligation	143	204	314
Change in assumption adjustments on plan liabilities	(55)	(35)	–
Experience adjustments on plan liabilities	(3)	(37)	(172)

	Company		
	2008	2007	2006
	\$'000	\$'000	\$'000
Unfunded defined benefit obligation	59	82	119
Change in assumption adjustments on plan liabilities	(14)	(8)	–
Experience adjustments on plan liabilities	(3)	(20)	(64)

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

22. FINANCIAL INCOME

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Interest income from loans and receivables				
- fixed deposits and advances to third parties	1,364	349	418	22
- a corporate shareholder	24	26	-	26
- affiliated companies	20	384	540	317
Debt settlement income	-	6	-	6
	<u>1,408</u>	<u>765</u>	<u>958</u>	<u>371</u>

23. FINANCIAL EXPENSES

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Interest expense on loans to third parties	1,959	2,212	540	631
Finance costs:				
- amortisation of transaction costs	91	32	91	32
- accretion of discount on convertible bonds	-	38	-	38
- other finance costs	747	889	61	48
Total finance costs	<u>838</u>	<u>959</u>	<u>152</u>	<u>118</u>
	<u>2,797</u>	<u>3,171</u>	<u>692</u>	<u>749</u>

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	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Personnel expenses (Note 21)	10,065	9,287	1,723	1,035
Financial expenses (Note 23)	2,797	3,171	692	749
Depreciation (Note 6)	2,191	2,103	269	483
Financial income (Note 22)	1,408	765	958	371
Amortisation of assets held for leasing	1,405	1,674	–	–
Operating lease expenses (Note 29)	1,070	1,090	215	197
Auditors' remuneration				
- auditors of the Company	196	200	61	56
- auditors of the Company, non-audit services	10	12	–	–
- other auditors	7	–	–	–
Impairment loss on doubtful trade receivables (Note 14)	112	198	–	–
Provision for inventory obsolescence (Note 13)	–	115	–	–
Write off of inventories (Note 13)	–	504	–	–
Other income - net (Note 20)	1,400	1,073	1,908	2,951

25. TAXATION

a) Major components of income tax expense

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

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current	338	1,119	–	4
Deferred	434	(298)	–	444
Income tax expense recognised in the profit and loss accounts	772	821	–	448

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

Reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rates for the years ended 31 December 2008 and 2007 are as follows:

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Profit (loss) before tax	1,790	1,870	(5,339)	270
Tax on relevant profits (losses) at the statutory rates applicable in the countries concerned	489	681	(47)	105
Adjustments:				
Loss (income) not subject to taxation	177	(578)	–	(133)
Non-deductible expenses	111	746	39	471
Deferred tax assets not recognised	19	–	–	–
Benefit from previously unrecognised tax losses	–	(78)	–	–
Others	(24)	50	18	5
Income tax expense recognised in the profit and loss accounts	772	821	10	448

c) Deferred tax assets and liabilities

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

	2008 \$'000	2007 \$'000
Unused tax losses	124	177
Unrealised loss on exchange differences	348	670
Others	9	170
	481	1,017

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

25. TAXATION (Continued)

c) Deferred tax assets and liabilities (Continued)

The Group's deferred tax liabilities, which are mainly on exchange differences, amounted to \$462,000 (2007: \$445,000) as at 31 December 2008.

Unrecognised tax losses

The Group has \$248,000 tax losses in 2008 (2007: nil) that are available for offset against future taxable profits of the subsidiaries in which the losses arose for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the subsidiaries operate. No deferred tax assets were recognised as it is not probable that sufficient taxable profit will be available against which the benefits of the deferred tax assets can be utilised.

Unrecognised temporary differences relating to investment in subsidiaries

As at 31 December 2008 and 2007, 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.

The subsidiaries and the branch of the Group operating in the Philippines were registered as economic zone enterprises. Under the terms of their registration, the subsidiaries and the branch are entitled to certain incentives, such as income tax holiday and tax and duty-free importation of raw materials, capital equipment, household and personal items for use solely within the economic zone area. Thereafter, in lieu of paying Philippine national and local taxes, they shall pay 5% special tax rate on gross margin earned after the tax holiday, as defined under the Republic Act No. 7226 and 7916 of the Philippines, the laws creating the economic zones.

Certain subsidiaries in China and Cambodia were granted tax exemption in their respective countries.

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

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 and share data used in the computation of basic and diluted EPS for the years ended 31 December:

	Group	
	2008 \$'000	2007 \$'000
Net profit attributable to ordinary equity holders of the Company used in the computation of basic and diluted EPS	977	1,000
Weighted average number of ordinary shares for basic and diluted EPS	434,906	369,900

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.

The current year's EPS on a fully diluted basis is calculated by dividing the net profit attributable to members of the Company by the weighted average number of shares during the year. There were no adjustments since the effect of the share options are anti-dilutive for the current and previous financial periods presented.

A total of 8,628,000 (2007: 12,198,000) share options granted to employees which are exercisable at the end of the year and nil (2007: nil) potential shares from convertible bonds have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the current and previous financial periods presented.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date is before the completion of these financial statements.

27. DIVIDENDS

	Company	
	2008 \$'000	2007 \$'000
Declared and paid during the year		
<i>Dividends on ordinary shares</i>		
A final exempt dividend of \$0.001 per share, paid in respect of the previous financial year	–	365

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 party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Income:				
Interest earned from a corporate shareholder	24	25	24	25
Interest earned from affiliated companies	20	21	–	–
Sales to subsidiaries	–	–	285	219
Sales to corporate shareholder	–	43	–	–
Costs and expenses:				
Purchases from a corporate shareholder	–	–	–	46
Distribution, communications and subcontracting services from an affiliated company	69	117	–	–

The Company has provided a corporate guarantee to a bank for a \$1.0 million (2007: \$1.5 million) loan (see Note 18) taken by a subsidiary

b) Compensation of key management personnel

	Group	
	2008 \$'000	2007 \$'000
Directors and executives' remuneration	591	499
Comprise amounts paid to:		
- directors of the Company	498	449
- directors of subsidiaries	5	–
- other key management personnel	88	50
	591	499

The remuneration of key management personnel are determined by the remuneration committee having regard to the performance of individuals and market trends.

No options were granted to directors and executives of the Company.

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)

Amounts due to directors, which amounted to \$52,000 (2007: \$37,000), are non-interest bearing and are payable on demand (see Note 17).

29. COMMITMENTS AND CONTINGENT LIABILITIES

a) Capital commitments

The capital expenditure contracted as at 31 December 2008 but not recognised in the financial statements of the Group is nil (2007: \$1.5 million).

b) Operating lease commitments - as lessor

The Company 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.

c) Operating lease commitments - as lessee

As at 31 December 2008, the Group and the Company has 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 payments recognised in the profit and loss accounts of the Group and Company amounted to \$1.1 million and \$215,000, respectively (2007: \$1.1 million and \$197,000, respectively).

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

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Not later than one year	228	822	73	114
Later than one year but not later than five years	1,515	1,912	605	664
Later than five years	7,131	7,516	772	847
	<u>8,874</u>	<u>10,250</u>	<u>1,450</u>	<u>1,625</u>

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

29. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

d) Contingent liabilities

Legal claims

In the ordinary course of business, certain subsidiaries of the Company are defendants in various litigation and claims with respect to matters such as labour and tax disputes. The Company has been advised by its counsel that it is possible, but not probable, that the action will succeed and accordingly, no provisions for any liability has been made in these financial statements.

Guarantees

The Group has a guarantee to the government of Taiwan of \$1.7 million for the performance of the conditions of the Program referred to in Note 33, including the commitment to spend \$4.8 million from 10 August 2005 until 10 August 2008. No liability arose since there was no breach in the conditions specified in the program (see Note 33).

The Company has provided a corporate guarantee to a bank for a \$1.0 million (2007: \$1.5 million) loan (see Note 18) taken by a subsidiary.

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.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

30. GROUP SEGMENTAL REPORTING (Continued)

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.

Transfer prices between business segments are set on an arm's-length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation.

(a) Business segments

The following table presents revenue, results and other information, assets, liabilities and other segment information regarding the Group's business segments for the years ended 31 December 2008 and 2007.

2008	Manufacturing \$'000	Hospital services \$'000	Distribution and others \$'000	Eliminations \$'000	Group \$'000
Revenue	74,392	9,598	3,747	(7,030)	80,707
Results	2,713	334	132	–	3,179
Financial expenses					(2,797)
Financial income					1,408
Income tax expense					(772)
Net profit for the year					1,018
Total assets	90,368	8,561	4,035	–	102,964
Total liabilities	46,545	8,071	–	–	54,616
<i>Other segment information:</i>					
Capital expenditure	7,280	3,673	–	–	10,953
Depreciation and amortisation	1,834	1,853	–	–	3,687
Other non-cash expenses - net	1,277	246	69	–	1,592

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

30. GROUP SEGMENTAL REPORTING (Continued)

(a) Business segments (Continued)

2007	Manufacturing \$'000	Hospital services \$'000	Distribution and others \$'000	Eliminations \$'000	Group \$'000
Revenue	84,098	8,797	6,157	(7,723)	91,329
Results	3,630	380	266	–	4,276
Financial expenses					(3,171)
Financial income					765
Income tax expense					(821)
Net profit for the year					1,049
Total assets	79,720	11,289	4,743	–	95,752
Total liabilities	38,054	10,341	–	–	48,395
<i>Other segment information:</i>					
Capital expenditure	1,324	1,886	–	–	3,210
Depreciation and amortisation	1,899	1,697	213	–	3,809
Other non-cash expenses - net	636	67	47	–	750

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 2008 and 2007.

2008	USA \$'000	Asia Pacific \$'000	Europe \$'000	Eliminations \$'000	Group \$'000
Revenue	40,093	42,449	5,195	(7,030)	80,707
Results	1,579	1,395	205	–	3,179
Financial expenses					(2,797)
Financial income					1,408
Income tax expense					(772)
Net profit for the year					1,018
Total assets	6,885	122,571	892	(27,384)	102,964
Total liabilities	–	54,616	–	–	54,616
<i>Other segment information:</i>					
Capital expenditures	–	10,953	–	–	10,953
Depreciation and amortisation	–	3,687	–	–	3,687
Other non-cash expenses - net	–	1,592	–	–	1,592

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

30. GROUP SEGMENTAL REPORTING (Continued)

(b) Geographical segments (Continued)

2007	USA \$'000	Asia Pacific \$'000	Europe \$'000	Eliminations \$'000	Group \$'000
Revenue	49,521	45,221	4,310	(7,723)	91,329
Results	2,138	1,952	186	–	4,276
Financial expenses					(3,171)
Financial income					765
Income tax expense					(821)
Net profit for the year					1,049
Total assets	4,498	118,259	379	(27,384)	95,752
Total liabilities	–	48,395	–	–	48,395
<i>Other segment information:</i>					
Capital expenditures	–	3,210	–	–	3,210
Depreciation and amortisation	–	3,809	–	–	3,809
Other non-cash expenses - net	–	749	–	–	749

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivative financial instruments, are cash and bank balances, fixed deposits, bank loans, long-term receivables, term loans, and convertible bonds. 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 affiliated companies, corporate shareholder and subsidiaries, other current assets and other current liabilities, which arise directly from its operations.

It is, and has been throughout the current and previous financial 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 2.12.

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 their 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 borrowings (see Note 18).

As at 31 December 2008, approximately 21.3% (2007: 10.7%) of the Group's borrowings are at fixed rate of interest.

Sensitivity analysis for interest rate risk

The table below demonstrates the sensitivity to a reasonably possible change in interest rates with all other variables held constant, of the Group's profit net of tax (through the impact of interest expense on floating rate loans and borrowings) and the Group's equity.

	Group	
	Increase/ (decrease) in basis points	Effect on profit before tax \$'000
2008		
US\$	50	(112)
RMB	50	(15)
NTD	50	(8)
US\$	(50)	112
RMB	(50)	15
NTD	(50)	8
2007		
US\$	15	(25)
RMB	15	(3)
NTD	15	(2)
US\$	(15)	25
RMB	(15)	3
NTD	(15)	2

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

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 2008, approximately 61.0% (2007: 86.0%) 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 liabilities at the balance sheet date based on contractual undiscounted payments:

2008 Group	Total carrying value \$'000	Contractual undiscounted payments			
		Total \$'000	On demand \$'000	< 1 year \$'000	1 to 5 years \$'000
Bank loans	20,341	21,531	–	21,531	–
Trade payables and other current liabilities	12,310	12,310	12,310	–	–
Trust receipts and acceptances payable	2,406	2,527	–	2,527	–
Term loans	18,804	21,717	–	2,652	19,065
Total	53,861	58,085	12,310	26,710	19,065

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)

2008 Company	Total carrying value \$'000	Contractual undiscounted payments			
		Total \$'000	On demand \$'000	< 1 year \$'000	1 to 5 years \$'000
Bank loans	2,020	2,066	–	2,066	–
Trade payables and other current liabilities	3,377	3,377	3,377	–	–
Trust receipts and acceptances payable	1,550	1,613	–	1,613	–
Term loans	18,734	21,645	–	2,652	18,993
Total	25,681	28,701	3,377	6,331	18,993

2007 Group	Total carrying value \$'000	Contractual undiscounted payments			
		Total \$'000	On demand \$'000	< 1 year \$'000	1 to 5 years \$'000
Bank loans	25,436	27,310	–	27,310	–
Trade payables and other current liabilities	13,013	13,013	13,013	–	–
Trust receipts and acceptances payable	4,994	5,322	–	5,322	–
Term loans	4,001	4,329	–	4,078	251
Total	47,444	49,974	13,013	36,710	251

2007 Company	Total carrying value \$'000	Contractual undiscounted payments			
		Total \$'000	On demand \$'000	< 1 year \$'000	1 to 5 years \$'000
Bank loans	3,000	3,232	–	3,232	–
Trade payables and other current liabilities	3,053	3,053	3,053	–	–
Trust receipts and acceptances payable	1,626	1,744	–	1,744	–
Term loans	3,750	4,078	–	4,078	–
Total	11,429	12,107	3,053	9,054	–

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 arising from sales or purchases that are denominated in a currency other than the respective functional currencies of the Group entities primarily Philippine peso, NTD and RMB. The Group monitors and assesses cash flows from anticipated transactions and financing agreements in these currencies.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit net of tax and equity to a reasonably possible change in the Philippine peso, NTD and RMB exchange rates (against US\$), with all other variables held constant.

	Group	
	2008 \$'000	2007 \$'000
	Effect on profit before tax	Effect on profit before tax
Philippine Peso		
Strengthened 15.0% (2007: 9.0%)	74	99
Weakened 15.0% (2007: 9.0%)	(64)	(73)
RMB		
Strengthened 2.0% (2007: 5.0%)	(277)	31
Weakened 2.0% (2007: 5.0%)	283	(31)
NTD		
Strengthened 1.0% (2007: 1.0%)	37	(56)
Weakened 1.0% (2007: 1.0%)	(26)	56

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 minimizing losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy 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, other receivables (including related party balances) and certain derivative financial instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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)

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Exposure to credit risk

At balance sheet date, 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.

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 ongoing basis. The credit risk concentration profile of the Group's trade receivables at balance sheet date is as follows:

	Group			
	2008		2007	
	\$'000	% of total	\$'000	% of total
By country:				
USA	6,340	46.0%	5,541	38.0%
Europe	295	2.0%	378	3.0%
Asia Pacific	7,224	52.0%	8,640	59.0%
	<u>13,859</u>	<u>100.0%</u>	<u>14,559</u>	<u>100.0%</u>
By segment:				
Manufacturing	8,747	63.0%	6,862	47.0%
Hospital Services	1,100	8.0%	2,954	20.0%
Trading	4,012	29.0%	4,743	33.0%
	<u>13,859</u>	<u>100.0%</u>	<u>14,559</u>	<u>100.0%</u>

The Group has no significant concentrations of credit risk, except for 44.0% (2007: 37.0%) of trade debts relating to three major customers of the Group. Revenues from these three customers constitute about 47.0% (2007: 49.0%) of the Group's turnover.

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 balance sheet date, approximately:

- \$6.1 million (2007: \$5.3 million) of the Group's trade receivables were due from 3 major customers located in the USA and Europe.
- \$600,000 (2007: \$1.1 million) of the Group's trade and other receivables were due from related parties, while \$400,000 (2007: \$300,000) of the Company's trade and other receivables were balances with related parties.

Financial assets that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are due from creditworthy debtors with good payment record with the Group. These receivables are further discussed in Note 14. Cash and bank balances are entered into with reputable financial institutions duly approved by the directors.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 14.

32. FINANCIAL INSTRUMENTS

a) Classification

2008

Group	Loans and receivables \$'000	Non-financial assets \$'000	Total \$'000
ASSETS			
Cash and bank balance and fixed deposits	6,639	–	6,639
Trade receivables	13,859	–	13,859
Other current assets	11,480	1,330	12,810
Inventories	–	25,763	25,763
Due from an affiliated company (trade)	256	–	256
Due from a corporate shareholder (non-trade)	373	–	373
Long-term receivables (non-trade)	4,000	–	4,000
Property, plant and equipment	–	33,546	33,546
Assets held for leasing	–	2,528	2,528
Goodwill	–	1,015	1,015
Deferred tax assets	–	481	481
Other non-current assets	219	1,475	1,694
	36,826	66,138	102,964

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

32. FINANCIAL INSTRUMENTS (Continued)

a) Classification (Continued)

	Other financial liabilities \$'000	Non-financial liabilities \$'000	Total \$'000
LIABILITIES			
Bank loans	20,341	–	20,341
Trade payables and other current liabilities	12,310	–	12,310
Trust receipts and acceptances payable	2,406	–	2,406
Income tax payable	–	208	208
Term loans	18,804	–	18,804
Pension benefits obligation	–	85	85
Deferred tax liabilities	–	462	462
	<u>53,861</u>	<u>755</u>	<u>54,616</u>

2007

Group

	Loans and receivables \$'000	Non-financial assets \$'000	Total \$'000
ASSETS			
Cash and bank balances and fixed deposits	2,309	–	2,309
Trade receivables	14,559	–	14,559
Other current assets	11,186	1,006	12,192
Inventories	–	27,806	27,806
Due from an affiliated company (trade)	858	–	858
Due from a corporate shareholder (non-trade)	274	–	274
Long-term receivables (non-trade)	5,097	–	5,097
Property, plant and equipment	–	24,938	24,938
Assets held for leasing	–	2,571	2,571
Goodwill	–	1,015	1,015
Deferred tax assets	–	1,017	1,017
Other non-current assets	300	2,816	3,116
	<u>34,583</u>	<u>61,169</u>	<u>95,752</u>

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

32. FINANCIAL INSTRUMENTS (Continued)

a) Classification (Continued)

	Other financial liabilities \$'000	Non-financial liabilities \$'000	Total \$'000
LIABILITIES			
Bank loans	25,436	–	25,436
Trade payables and other current liabilities	13,013	–	13,013
Trust receipts and acceptances payable	4,994	–	4,994
Income tax payable	–	374	374
Term loans	4,001	–	4,001
Pension benefits obligation	–	132	132
Deferred tax liabilities	–	445	445
	47,444	951	48,395

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 carried at fair value

The Group and Company carried its embedded derivative financial instruments at their fair value as required by FRS 39, *Financial Instruments: Recognition and Measurement*.

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, 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.

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.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

32. FINANCIAL INSTRUMENTS (Continued)

b) Fair values (Continued)

	Group				Company			
	Carrying Amount		Fair Value		Carrying Amount		Fair Value	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Financial assets:								
Long-term receivables	4,000	5,097	4,250	5,491	4,000	5,097	4,250	5,491
Financial liabilities:								
Term loans	70	251	67	239	–	–	–	–
Long-term loan	18,734	–	17,834	–	18,734	–	17,834	–

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

- Long-term receivables
- Term loans
- Long-term loan

Methods and assumptions

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.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

32. FINANCIAL INSTRUMENTS (Continued)

c) Interest rate risk

The following tables set out the carrying amount, by maturity, of the Group's and the Company's financial instruments that are exposed to interest rate risk:

2008 Group	Within 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3-4 years \$'000	Total \$'000
Fixed rate					
Due from an affiliated company (trade)	256	–	–	–	256
Due from a corporate shareholder (non-trade)	373	–	–	–	373
Trust receipts and acceptances payable	(981)	–	–	–	(981)
Bank loans	(7,872)	–	–	–	(7,872)
Floating rate					
Cash and bank balances	6,639	–	–	–	6,639
Trust receipts and acceptances payable	(1,425)	–	–	–	(1,425)
Bank loans	(15,019)	(6,170)	(8,639)	(1,445)	(31,273)

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

32. FINANCIAL INSTRUMENTS (Continued)

c) Interest rate risk (Continued)

2008 Company	Within 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3-4 years \$'000	Total \$'000
Fixed rate					
Due from a corporate shareholder (non-trade)	373	-	-	-	373
Trust receipts and acceptances payable	(230)	-	-	-	(230)
Floating rate					
Cash and bank balances	888	-	-	-	888
Trust receipts and acceptances payable	(1,549)	-	-	-	(1,549)
Bank loans	(4,570)	(6,100)	(8,639)	(1,445)	(20,754)
2007 Group					
Fixed rate					
Due from an affiliated company (trade)	858	-	-	-	858
Due from a corporate shareholder (non-trade)	274	-	-	-	274
Trust receipts and acceptances payable	(3,612)	-	-	-	(3,612)
Bank loans	(9,553)	-	-	-	(9,553)
Floating rate					
Cash and bank balances	1,714	-	-	-	1,714
Fixed deposits	595	-	-	-	595
Trust receipts and acceptances payable	(1,382)	-	-	-	(1,382)
Bank loans	(19,633)	(251)	-	-	(19,884)

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

32. FINANCIAL INSTRUMENTS (Continued)

c) Interest rate risk (Continued)

2007 Company	Within 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3-4 years \$'000	Total \$'000
Fixed rate					
Due from a corporate shareholder (non-trade)	323	–	–	–	323
Trust receipts and acceptances payable	(291)	–	–	–	(291)
Floating rate					
Cash and bank balances	77	–	–	–	77
Fixed deposits	416	–	–	–	416
Trust receipts and acceptances payable	(1,335)	–	–	–	(1,335)
Bank loans	(6,750)	–	–	–	(6,750)

33. GOVERNMENT GRANTS

On 31 August 2005, the government of Taiwan awarded MTC, a subsidiary in Taiwan, and Universal Joint International Corporation (UJIC), a corporate shareholder, a subsidy for the “Highly Protective Textile Technology Development Environment and Service Integration Program” under the “Innovative Service Industry Technology Development Plan” (the “Program”). The Program is for three years commencing on August 2005 with a total subsidy of \$1.4 million of which, \$857,000 represents the share of MTC. MTC and UJIC, as co-sponsors, guaranteed to the government of Taiwan the performance of the conditions of the Program, including the commitment to spend \$8.0 million. No liability is expected to arise unless there is any breach in the conditions specified in the Program (see Note 29).

The Group recognised revenue on grant from government of \$162,000 (2007: \$305,000), presented under “Other operating income - net” in the profit and loss accounts.

34. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 2007.

Notes to the Financial Statements

(Continued)

(Amounts in United States dollars unless otherwise stated)

34. CAPITAL MANAGEMENT (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio in the range of 50.0%. The Group includes within net debt, loans and borrowings, trade payables and other current liabilities, less cash balances and fixed deposits. Capital includes equity attributable to the equity holders of the parent.

	Group	
	2008 \$'000	2007 \$'000
Loans and borrowings	41,551	34,431
Trade payables and other current liabilities	12,310	13,013
Less: Cash and bank balances and fixed deposits	(6,639)	(2,309)
	47,222	45,135
Equity attributable to the equity holders of the parent	46,276	45,370
Capital and net debt	93,498	90,505
Gearing ratio	50.5%	49.9%

35. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the board of directors on 12 March 2009.

List of Properties

As at December 2008, the major leasehold properties of the Group consist of the following:

<u>DESCRIPTION</u>	<u>LOCATION</u>	<u>AREA (in sq.m)</u>	<u>TENURE OF LEASE</u>
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
Land and industrial lot	7th Street, Phase II Mariveles Bataan Philippines	22,646	50 years
Industrial lot	7th Street, Phase II Mariveles Bataan Philippines	17,856	15 years
Industrial lot	SBMA, Olangapo City Philippines	13,124	50 years
Industrial lot	7th Street, Phase II Mariveles Bataan Philippines	7,000	50 years
Industrial lot	7th Street, Phase II Mariveles Bataan Philippines	5,000	50 years
Factory and office building	Qinghe Economic Park, Gaoqing County Zibo City, Shandong, China	2,880	3 years
Factory building	202 Zhangshan Road, Renhe Town Yuhang, Hangzhou, China	19,417	20 years
Land	202 Zhangshan Road, Renhe Town Yuhang, Hangzhou, China	15,333	50 years
Office space	The Peninsula Court, Paseo de Roxas Makati City, Philippines	1,000	1 year
Office space	10 Anson Road, #15-05 International Plaza Singapore 079903	87	2 years
Factory building	Yi-Lan Hsien, Taiwan	1,143	1 year

Statistics of Shareholdings

Distribution of Shareholdings

AS AT 17 MARCH 2009

<u>Size of Holdings</u>	<u>No. of Shareholders</u>	<u>%</u>	<u>No. of Shares</u>	<u>%</u>
1 - 999	116	2.00	42,953	0.01
1,000 - 10,000	3,664	63.24	9,577,299	2.20
10,001 - 1,000,000	1,976	34.10	112,311,414	25.83
1,000,001 and above	38	0.66	312,974,039	71.96
Total	<u>5,794</u>	<u>100.00</u>	<u>434,905,705</u>	<u>100.00</u>

Substantial Shareholders

AS AT 17 MARCH 2009

	<u>Direct Interest</u>	<u>%</u>	<u>Deemed Interest</u>	<u>%</u>
Clement Yang Ker-Cheng	8,793,600	2.02	65,998,141	15.18
Universal Joint International Corporation	-	0	42,922,943	9.87

(1) Clement Yang Ker-Cheng is deemed to be interested in the 42,922,943 shares, 8,506,621 shares and 14,568,577 shares held by Universal Joint International Corporation and its nominee (OCBC Securities Private Ltd.), South World Investment Ltd., and Kim Eng Securities Pte. Ltd., respectively.

PERCENTAGE OF SHAREHOLDINGS IN PUBLIC'S HANDS

82.8% of the Company's shares are held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

Twenty Largest Shareholders

	Name	<u>No. of Shares</u>	<u>%</u>
1.	United Overseas Bank Nominees Pte Ltd	106,041,500	24.38
2.	OCBC Securities Private Ltd	54,565,485	12.55
3.	Kim Eng Securities Pte. Ltd.	17,557,377	4.04
4.	HSBC (Singapore) Nominees Pte Ltd	14,670,000	3.37
5.	DMG & Partners Securities Pte Ltd	10,714,285	2.46
6.	Yang Clement K C	8,793,600	2.02
7.	South World Investment Limited	8,506,621	1.96
8.	DBS Vickers Securities (S) Pte Ltd	6,833,614	1.57
9.	Morph Investments Ltd	6,200,400	1.43
10.	Mohamed Salleh s/o Kadir Mohideen Saibu Maricar	6,175,000	1.42
11.	Wu Chia-Yu	6,160,715	1.42
12.	Chen Chiu-Nan	5,357,142	1.23
13.	Chen Chiu-Chun	4,017,857	0.92
14.	Saw Tze Choon	3,903,000	0.90
15.	Tan Sze Seng	3,501,000	0.81
16.	Tan Hai Peng Micheal	3,500,000	0.80
17.	Cheng Wen-Jung	3,214,285	0.74
18.	Ko Hung Hsi	3,214,285	0.74
19.	Wang Ting-Chien	3,214,285	0.74
20.	Wu Li-Chung	3,214,285	0.74
	Total :	<u>279,354,736</u>	<u>64.24</u>

Interested Person Transaction

<u>Name of Interested Persons</u>	<u>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)</u>		<u>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)</u>
	<u>2008</u>	<u>2007</u>	
Universal Joint International Corporation corporate shareholder			
-Advances	US\$ 381	US\$ 531	N/A
Up Eagle Investment and Development Co. Ltd.			
-Acquisition of property, plant and equipment	-	1,886	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 Kallang Room, Level 4, Holiday Inn Atrium, 317 Outram Road, Singapore 169075 on Wednesday, 29 April 2009 at 3.30 pm for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the financial year ended 31 December 2008 together with the Auditors' Report thereon.
(Resolution 1)
2. (a) To re-elect Mr George Edwin SyCip, a Director retiring pursuant to Bye-Law 86 of the Company's Bye-Laws. [See Explanatory Note (i)]
(Resolution 2a)

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

(c) To re-elect Mr Koh Soo Keong, a Director retiring pursuant to Bye-Law 85(2) of the Company's Bye-Laws. [See Explanatory Note (iii)]
(Resolution 2c)
3. To approve the payment of Directors' fees of S\$179,916.67 (equivalent to US\$124,012.04) for the financial year ended 31 December 2008 (2007:S\$158,000.00 (equivalent to US\$109,003.10)).
(Resolution 3)
4. To re-appoint Messrs SyCip Gorres Velayo & Co. as the Company's Auditors and to authorise the Directors to fix their remuneration.
(Resolution 4)
5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

Notice of Annual General Meeting

(Continued)

AS SPECIAL BUSINESS

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

6. "That pursuant to Rule 806 of the listing rules of the Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be and is hereby given to the Directors of the Company to:
1. (i) issue shares in the capital of the Company (the "Shares") (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 Instrument 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 fifty percent (50%) 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 twenty percent (20%) 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 Listing Manual of the SGX-ST; and
 - (iii) any subsequent bonus issue, consolidation or subdivision of Shares;

Notice of Annual General Meeting

(Continued)

- c. the fifty percent (50%) limit under sub-paragraph a. above, may be increased to one hundred percent (100%) where the Company undertakes a pro-rata renounceable rights issue;
- d. in exercising the authority conferred by this resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the memorandum of association and Bye-laws for the time being of the Company; and
- e. 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 (iv)].

(Resolution 5)

- 7. "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 percent (15%) of the total number of issued shares excluding treasury shares of the Company from time to time." [See Explanatory Note (v)].

(Resolution 6)

Notice of Annual General Meeting

(Continued)

By Order of the Board

Abdul Jabbar Bin Karam Din
Joint Company Secretary

Singapore, 6 April 2009

Explanatory Notes:

- (i) Mr George Edwin SyCip, upon re-election as a Director of the Company, will remain as a member of the Audit Committee and the Remuneration Committee and Chairman of the Nominating Committee. Mr SyCip is an Independent Director.
- (ii) Ms Carol Yang Xiao-Qing, upon re-election as a Director of the Company, will remain as a member of the Audit Committee and the Nominating Committee and Chairman of the Remuneration Committee. Ms Yang is an Independent Director.
- (iii) Mr Koh Soo Keong, upon re-election as a Director of the Company, will remain as a member of the Audit Committee, the Nominating Committee and the Remuneration Committee. Mr Koh is an Independent Director.
- (iv) The Ordinary Resolution 5 proposed in item 6. above, if passed, is to empower the Directors to 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 5 (including shares to be issued in pursuance of instruments made or granted) shall not exceed fifty percent (50%) of the total number of issued shares excluding treasury shares of the Company, with a sub-limit of twenty percent (20%) 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 with registered addresses in Singapore. The Company may increase the limit to one hundred percent (100%) where it undertakes a pro-rata renounceable rights issue. 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 5, 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 5, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and (iii) any subsequent bonus issue, consolidation or subdivision of shares.

Notice of Annual General Meeting

(Continued)

The allotment and issuance of shares in the Company up to one hundred percent (100%) of its issued capital by way of a pro-rata renounceable rights issue is a new measure introduced by the Singapore Exchange Limited, in consultation with the Monetary Authority of Singapore, on 20 February 2009 to accelerate and facilitate listed issuers' fund raising efforts and will be in effect until 31 December 2010.

The aforesaid mandate to issue up to one hundred percent (100%) of the Company's issued capital is conditional upon the Company:

- (i) making periodic announcements on the use of the proceeds as and when the funds are materially disbursed; and
- (ii) providing a status on the use of proceeds in the annual report.

This mandate, if passed, will provide the Directors with an opportunity to raise funds and avoid prolonged market exposure by reducing the time taken for shareholders' approval, in the event the need arises. Minority shareholders' interests are mitigated as all shareholders have equal opportunities to participate and can dispose their entitlements through trading nil-paid rights if they do not wish to subscribe for their rights shares.

- (v) The Ordinary Resolution 6 proposed in item 7 above, if passed, is to authorise the Directors to offer and grant options in accordance with the provisions of the Medtecs Share Option Scheme ("Scheme") and to allot and issue shares under the Scheme.

Notice of Annual General Meeting

(Continued)

Notes:

1. If a shareholder being a Depositor (who is not a natural person) whose name appears in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore) 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 3 Church Street, #08-01 Samsung Hub, Singapore 049483, 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.
2. 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 3 Church Street, #08-01 Samsung Hub, Singapore 049483, at least 48 hours before the time of the Annual General Meeting.

MEDTECS INTERNATIONAL CORPORATION LIMITED

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