DYNAMIC COLOURS LIMITED

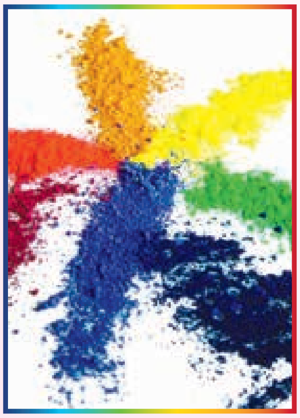
# Cultivating Dynamic Potential

## For The Future Of Packaging

Annual Report 2014

# CONTENTS





# CORPORATE PROFILE

Established in 1993, Dynamic Colours Limited is principally engaged in the business of colour compounding and modified compounding of resins, which are used in the manufacture of external casings or component parts of electrical appliances and electronic devices.


MALAYSIA



VIETNAM

We supply our resin compounding products to plastic injection moulders ("PIMs") and original equipment manufacturers ("OEMs") who in turn serve customers such as Hewlett-Packard, Toshiba, Dell, BenQ, Avision, Sony, Microsoft and Asus. Our production facilities in Suzhou are amongst the largest in Jiangsu Province, PRC, and are strategically located near existing and potential clients. Our other production facilities are located in Malaysia and Vietnam.

In Malaysia, our production facilities manufacture heavy-duty polyethylene bags and other plastic packaging materials. Presently, we serve mainly the petrochemical hub on Jurong Island and count amongst our customers leading companies such as ExxonMobil, Chevron Phillips and The Polyolefin Company (Singapore) Pte Ltd.

CHINA


SINGAPORE

# CHAIRMAN'S MESSAGE

**Dear Shareholders,**

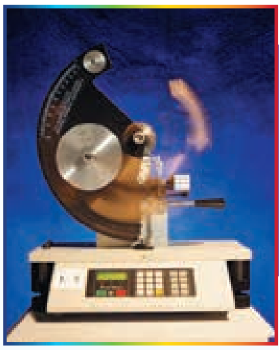
Financial year 2014 was marked by the strong appreciation of the U.S. dollar and a sharp fall in crude oil price, particularly during the fourth quarter. However, the main challenge in 2014 came from lower market demand in the resin compounding (RC) business amidst a manufacturing slowdown in China. Notwithstanding the profit decline in RC segment, we were able to maintain Group profit at US$2.28 million with a profit rise in polyethylene packaging (PP) manufacturing, made possible by our ability to service the higher demand with our upgraded manufacturing facilities. We had the foresight to expand our PP capacity by purchasing land in 2012 in Senai, Johor for the construction of a PP plant that is currently in operation.

The expansion of our Senai plant was completed in the first quarter of 2015 with additional manufacturing capacity 5,500 ton per year. In addition, the Group aims to complete the installation of stretch hood lines at the Senai plant in the third quarter of 2015.

## PERFORMANCE HIGHLIGHTS

Group turnover declined 3.9% to US$66.69 million, pulled down by lower RC sales but offset by higher PP sales. RC segment revenue declined from US$50.30 million to US$39.70 million due to a 21.9% fall in tonnage. On the other hand, revenue for PP segment increased by 44.2% from US$15.33 million to US$22.12 million as a result of an increase in production tonnage of 36.5%. The injection moulding (IM) segment recorded sales of US$4.88 million compared with US$3.75 million for nine months production in FY2013.

# CHAIRMAN'S MESSAGE



As a result, profit for the year decreased marginally by 0.7% to US$2.28 million (2013: US$2.30 million). The Group achieved a positive net cash flow of US$4.78 million from its operating activities. As at 31 December 2014, we have a healthy cash balance of US$9.28 million and interest bearing liabilities of US$4.84 million.

## LOOKING AHEAD

Oil price uncertainty and volatility has added new risk to the global growth outlook. The U.S. dollar has appreciated while many currencies of both developed and emerging markets have weakened, including those of commodity exporters that are suffering from trade and budget deficits. Global trade remains weak and financial markets could turn volatile as interest rates in major economies rise. In view of these factors, the petro-chemical and consumer electronics industries of the Group's key markets remain challenging. The RC activities are projected to stay competitive while PP activities are expected to be stable, in line with the upgraded PP manufacturing facilities and a more manageable labour supply in the Malaysia plant.

Management will stay vigilant and closely monitor the global economy, the demand for the Group's products and the trends of operating costs and selling prices. As always, we will look for new opportunities to grow our industry and geographic segments. Undeterred by the hovering economic clouds, we remain responsive to the dynamic business environment and continue to pursue initiatives for restructuring and diversification.

## DIVIDEND

For the year ended 31 December 2014, the Board has recommended a final dividend of S$0.015 per share, tax exempt, which equates to S$3.15 million.

## ACKNOWLEDGEMENT

I wish to thank everyone in the Group for their commitment and diligence during the past financial year and for supporting the Group's restructuring and diversification efforts. I also wish to acknowledge the contribution and dedication of my fellow directors. Shareholders can be assured of the Board's commitment to their best interests. Finally but not least, I would like to express my thanks to all shareholders, business associates and customers for their ongoing support and loyalty.

I am looking forward to meeting you at our coming Annual General Meeting.

**Yeo Hock Leng**
Executive Chairman and
Group Managing Director

# OPERATIONS REVIEW

The core businesses of Dynamic Colours Group ("the Group") are resin compounding, polyethylene packaging and injection moulding. Currently, our resin compounding ("RC") segment comprises our wholly owned subsidiaries in Suzhou, Vietnam and Malaysia, namely, Suzhou Huiye Plastic ("SHP"), Suzhou Huiye Chemical ("SHC"), Huiye Vietnam Plastic ("HVP") and Huiye Polymer Malaysia ("HPM"). Our polyethylene packaging ("PP") segment is represented by SL Packaging ("SLP") in Singapore and HPM in Malaysia. The Group's injection moulding ("IM") business is carried out in Vietnam by DC's 80% owned subsidiary, DCQ Plastic Industry Company Limited ("DCQ").

In FY2014, our RC segment accounted for 59.6% of the total Group's revenue (FY2013: 72.5%) and 33.1% (FY2013: 22.1%) was contributed by the PP segment. The balance of 7.3% (FY2013: 5.4%) came from IM segment.

## STATEMENT OF COMPREHENSIVE INCOME

Group revenue decreased by US$2.70 million or 3.9% from US$69.390 million in FY2013 to US$66.692 million in FY2014. Revenue for RC segment declined by 21.1%, from US$50.302 million to US$39.700 million. The lower revenue is the result of a decline in RC production tonnage by 21.9%. The increase in average RC selling price for the year was marginal. The PP segment revenue increased by 44.2% from US$15.334 million to US$22.117 million as a result of an increase in production tonnage of 36.5% as well as an increase in average selling price by 5.4%. The IM segment revenue increased by 30.0% from US$3.754 million in FY2013 to US$4.875 million in FY2014 due to the operations in FY2013 commencing only in March 2013.

Cost of sales fell proportionately to US$60.516 million in FY2014 from US$62.844 million in FY2013, with a gross profit margin of 9.3% in FY2014 versus 9.4% in FY2013.

Other income decreased from US$643K in FY2013 to US$485K in FY2014 largely because of the reversal of a US$320K allowance for doubtful debt made in FY2013 and offset by an increase in rental income of US$80K and an increase in credit insurance rebates of US$65K in China.

Distribution expenses decreased by 17.6% from US$1.310 million to US$1.079 million mainly due to lower manpower and freight costs in China as a result of RC's lower sales volume.

Administrative expenses declined from US$2.843 million in FY2013 to US$2.678 million in FY2014. This is explained by the inclusion of professional fees of approximately US$110K in 1H2013 incurred in connection with the unsuccessful Conditional Cash Offer by CIMB Bank Bhd, for and on behalf of Intraco Ltd, to acquire all the issued ordinary shares in the capital of Dynamic Colours Ltd and a decrease in staff costs.

Other operating expenses decreased from US$348K to US$7K due to a loss in liquidation of a subsidiary in FY2013.

Finance income comprises fixed deposit interest income and foreign exchange gains while finance costs covers interest expense and foreign exchange losses. Interest income rose from US$81K to US$155K due to placement of fixed deposits while foreign exchange transaction differences fluctuated from a gain of US$47K in FY2013 to a loss of US$161K in FY2014. The exchange loss arose from the settlement of payables arising from the purchase of machinery. Interest expense rose from US$155K to US$184K on the back of a rise in interest bearing liabilities from US$3.888 million to US$4.838 million. Hence, finance income climbed from US$128K to US$155K while finance costs rose from US$155K to US$345K.

As a result of the above, the Group's profit for the year decreased by 0.7% from US$2.300 million in FY2013 to US$2.283 million in FY2014.

## STATEMENT OF FINANCIAL POSITION

The increase in property, plant and equipment was mainly due to the acquisition of machineries in Malaysia and Vietnam and partially offset by the increase in depreciation charges for the year.

The value of inventories decreased by US$2.577 million owing to the lower value of raw material purchases based on both price and usage considerations.

The decrease in trade and other receivables by US$3.627 million was in line with lower sales recorded towards the end of FY2014.

The decrease in trade and other payables by US$5.661 million was largely the result of a decline in raw material inventories.

Interest bearing liabilities increased from US$3.888 million to US$4.838 million due to an increase in short term bridging loans for working capital purposes.

## STATEMENT OF CASH FLOWS

Cash and cash equivalents decreased by US$2.344 million, from US$11.626 million to US$9.281 million.

The Group achieved a positive cash flow from its operating activities of US$4.781 million compared with a net profit of US$2.283 million. The excess of cash over profit was caused mainly by non-cash items like depreciation and allowance for inventory obsolescence while the decrease in inventories and receivables was offset by a decrease in payables and an increase in prepayments.

Cash outflows of US$3.487 million in investing activities are attributed to the purchases of machineries in Malaysia and Vietnam.

Cash outflows of US$3.625 million in financing activities were due mainly to dividend payment and repayments of short term loans and trust receipts, offset by proceeds from short term loans.

## LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2014, the Group's net current assets was US$13.866 million (31 December 2013: US$17.118 million), with a current ratio of 1.88 as compared to 1.84 as at 31 December 2013.

The net working capital cycle shortened to 49 days as at 31 December 2014 from 50 days as at 31 December 2013 as a net result of the following factors:

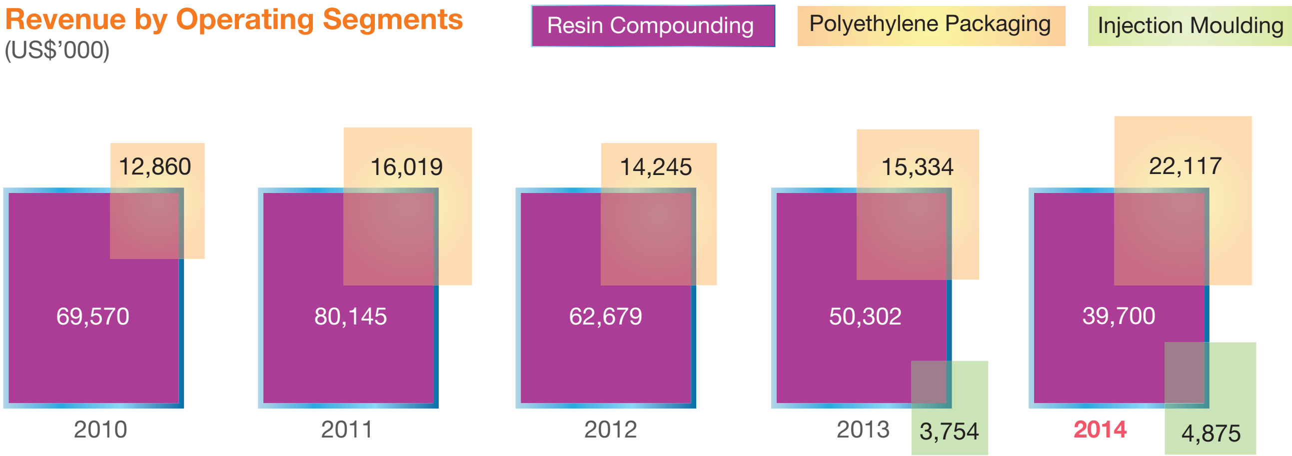
(i) Inventories, in terms of stock turnover days, decreased to 43 days (31 December 2013: 56 days)

(ii) Trade receivables, in terms of debtors turnover days, decreased to 63 days (31 December 2013: 78 days).

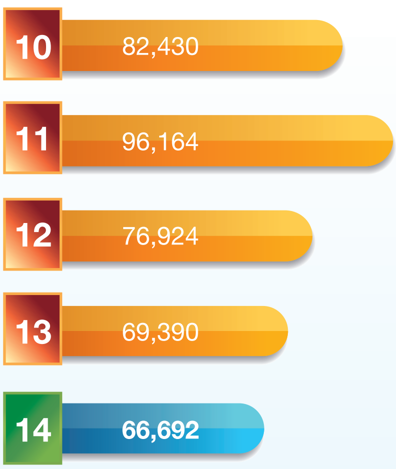
(iii) Trade payables, in terms of creditors turnover days, decreased to 57 days (31 December 2013: 84 days).

# FINANCIAL HIGHLIGHTS

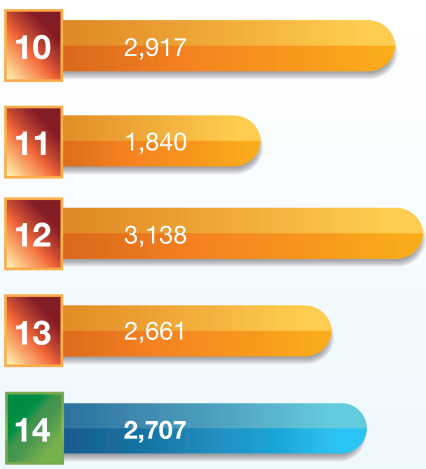
## Revenue by Operating Segments
(US$'000)




## Revenue
(US$'000)



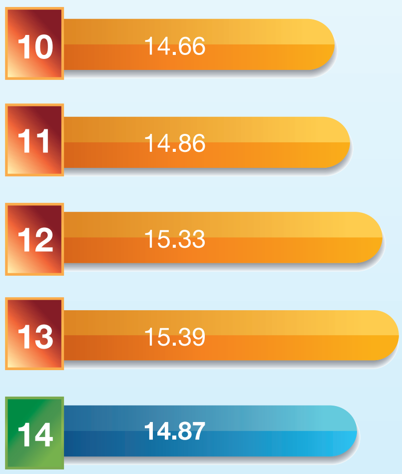

## Profit Before Income Tax
(US$'000)




## Profit After Income Tax
(US$'000)


## Basic and Diluted Earnings Per Share
(US cents)


## Net Asset Value Per Share
(US cents)



# STRATEGIC LOCATIONS AND MARKETS

## CHINA

**Suzhou**
No. 96 South Yingchun Road,
Wuzhong District Economic
Development Zone, Suzhou,
Jiangsu Province,
China. Post Code 215128

## VIETNAM

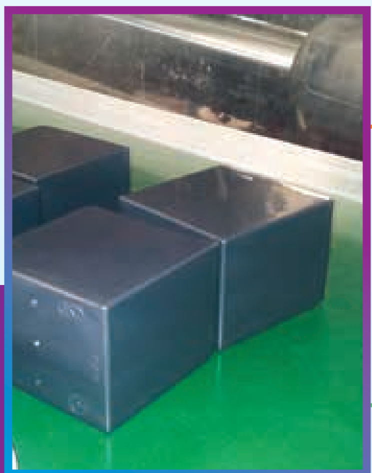
**Ho Chi Minh City**
25 & 27 Dan Chu Street,
Vietnam Singapore Industrial Park II
Hoa Phu Ward, Thu Dau Mot Town
Binh Duong Province, Vietnam

## MALAYSIA

**Senai**
PLO 80 & 167, Jalan Cyber 5,
Kawasan Perindustrian
Senai Fasa III,
81400 Senai, Johor, Malaysia

## SINGAPORE

55A Yishun Industrial Park A,
SL Building, Singapore 768729



# PRODUCTS AND SERVICES

We supply our products to plastic injection moulders ("PIMs") and original equipment manufacturers ("OEMs") who in turn serve customers such as Hewlett-Packard, Toshiba, Dell, BenQ, Avision, Sony, Microsoft and Asus.

### Products we carry include:

- Polyethylene (LLDPE, Metallocene LLDPE, LDPE, HDPE)
- Polypropylene (PP)
- Polystyrene (HIPS, GPPS)
- Acrylic plastics (PMMA)
- Acrylonitrile-Butadiene-Styrene (ABS)
- High Performance Engineering and Functional Polymers
    - PC (Polycarbonate)
    - PC/ABS Alloy
    - POM (Polyoxymethylene)
    - PA (Polyamide/Nylon)
    - Glass-Filled, Mineral Filled, PTFE, FR, Conductive, Antistatic, High Heat, UV, Antioxidant etc

Transparent or opaque, coloured materials are available with tailored matching services.

### Services we provide include:

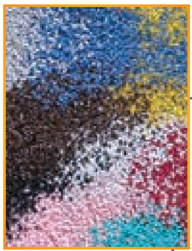
- Project Consulting (part design & material selection),
- Managing Supply Chain (off-load the planning and logistic burdens of our customers),
- Customized/Colour Compounding, and blending services,
- Warehousing and Technical Assistance,
- Joint Product Development, and
- Melt Processing-Homogenizing of polymers to improve consistency.

# PRODUCTS AND SERVICES

## RESIN COMPOUNDING

### COLOUR COMPOUNDING

Enhances the aesthetic appeal of electronic devices with a wide variety of colours



Injection of different colours into resins used to manufacture plastic component parts of devices

### MODIFIED COMPOUNDING

Injection of additives such as glass fibres, carbon fibres, mineral fillers and other chemicals into plastic resins

Enhances the physical characteristics of plastic resins, by making them flame-retardant, heat resistant, anti-fungal, with increased tensile and/or impact strength

## POLYETHYLENE PACKAGING

### HEAVY-DUTY POLYETHYLENE BAGS

- Used by petrochemical companies to pack polyethylene and polypropylene resins
- Custom-made according to size, printing, embossing and film performance

### GENERAL PURPOSE POLYETHYLENE PACKAGING MATERIALS

Used for storage and packing purposes

## INJECTION MOULDING

### INJECTION OF PLASTIC RESIN INTO A MOULD TO SHAPE THE POLYMER INTO DESIRED SHAPES.

Used for manufacturing a variety of parts such as IT parts, electrical parts, rollers and home appliances.

# BOARD OF DIRECTORS AND KEY MANAGEMENT

## Mr Yeo Hock Leng

Executive Chairman and Group Managing Director

**Mr Yeo Hock Leng** is our Executive Chairman and Group Managing Director and was appointed to our Board on 2 July 1993. Mr Yeo has more than 20 years of experience in the resin pigment and compounding industry. Mr Yeo co-founded BS Colours with his wife, Mdm Goh Seok Eng, in 1987. From 1987 to 1990, Mr Yeo was the manager of BS Colours, where he oversaw the production and sales aspects of BS Colours' business.

In 1991, Mr Yeo co-founded Dynamic Way Sdn Bhd ("Dynamic Way") with Mdm Goh Seok Eng and a few other business associates. Mr Yeo was responsible for the general management matters relating to Dynamic Way's production and sales during the period from 1991 to 1995. Mr Yeo as our Group Managing Director, is responsible for the general management and strategic development of our Group's business operations.

Mr Yeo is a director of Hundred Vision Equity Sdn Bhd.

## Madam Goh Seok Eng

Deputy Group Managing Director and Technical Director

**Mdm Goh Seok Eng** is our Deputy Group Managing Director and Technical Director. Mdm Goh was appointed to our Board on 2 July 1993. Mdm Goh has more than 30 years of experience in the resin pigment and compounding industry. She is overall in-charge of technical and product development, procurement and sales matters for our Group.

Mdm Goh graduated from Singapore Polytechnic with a Diploma in Chemical Process Technology in 1982. Mdm Goh started her career as a colour pigment chemist in 1983 with Burkill (Singapore) Pte. Ltd. where she was eventually promoted to Head of Department in 1984.

Together with Mr Yeo Hock Leng, she co-founded BS Colours, which is a local company specialised in the matching & sales of blended colour pigments, in 1987. From 1987 to 1990, Mdm Goh managed the operations of BS Colours and was responsible for raw material procurement as well as technical matters. She subsequently co-founded Dynamic Way with Mr Yeo Hock Leng in 1991 and was the manager of its resin compounding department. Mdm Goh holds an Advanced Diploma in Polymer Technology, which was awarded by the Singapore Polytechnic in 1986.

Mdm Goh is a director of Hundred Vision Equity Sdn Bhd.

## Mr Soon Boon Siong

Lead Independent Director
Chairman, Nominating Committee
Chairman, Remuneration Committee
Member, Audit and Risk Committee

**Mr Soon Boon Siong** was appointed to our Board on 22 April 2011. Mr Soon is presently Managing Director, Corporate Finance in Partners Capital (Singapore) Pte Ltd, which is a boutique Corporate Finance house licensed by the Monetary Authority of Singapore and accredited by the Singapore Exchange to undertake activities such as managing Initial Public Offerings; and acting as financial adviser or independent financial adviser.

Before joining Partners Capital in April 2010, Mr Soon headed the corporate finance business of Phillip Securities Pte Ltd; United Overseas Bank Ltd and Overseas Union Bank Ltd. With more than 30 years of experience, Mr Soon have handled and supervised more than 100 corporate finance transactions involving fund raising and other advisory deals.

Mr Soon graduated with a degree in Business Administration from the University of Singapore in 1972.

Mr Soon holds a directorship in one other SGX listed companies: Tai Sin Electric Limited.

## Mr Chong Yee Siew Sebastian

Independent Director
Member, Audit and Risk Committee
Member, Nominating Committee
Member, Remuneration Committee

**Mr Chong Yee Siew Sebastian** was appointed to our Board on 24 September 2007.

He began his career in 1971 with a Big Four accounting firm where he rose to senior audit manager. He left the auditing profession in 1980 for an academic career with the National University of Singapore (NUS). He served NUS until his retirement as an Associate Professor. He currently runs his own financial education firm, Financial Info Analysis Pte Ltd and its subscription-based website, Shareowl.com.

He served on the Management Committee and Investor Education Committee of the Securities Investors Association (Singapore) from 2000 to 2009. He has also served as a member of the Financial Statements Review

Committee and of the Auditing Practices Committee of the Institute of Singapore Chartered Accountants ("ISCA") from 1983 to 1996. He is a Fellow Chartered Accountant of Singapore ("FCA (Singapore)") and FCPA Australia and holds a Bachelor of Accountancy (Honours) from the then University of Singapore and a Master of Economics (Accounting) from the University of Sydney.

Mr Chong is not a director of any other public listed company.

## Mr Tan Lye Huat

Independent Director
Chairman, Audit and Risk Committee
Member, Nominating Committee
Member, Remuneration Committee

**Mr Tan Lye Huat** was appointed to our Board on 23 May 2011.

Mr Tan began his career in Accounting at Malayan Banking Berhad and switched to Auditing as an Audit-Assistant at then Turquand Youngs & Co. His substantial finance, accounting and commercial experiences were acquired as Finance Director and certain senior executive roles at United Motor Works Private Group in Singapore and the Region.

Mr Tan had previously been actively engaged in corporate governance advocacy, consultancy and training work under HIM Governance Pte Limited, including being the Regional Adviser of Governance for Owners LLP as well as volunteering at a number of other governance-related associations.

Mr Tan also holds directorships in four other SGX listed companies : SP Corporation Limited, Japan Foods Holding Ltd, Neo Group Limited and Nera Telecommunications Ltd. Mr Tan was a director of Singapore Kitchen Equipment Limited (listed on the Singapore Exchange), from which he resigned in 2013.

Mr Tan is a member of the ISCA, a Fellow of the Association of Chartered Certified Accountants (FCCA), member of the Australian Institute of Company Directors (AICD) as well as a Chartered Director (C. Dir.) of the Institute of Directors (IOD, UK). He was a Fellow of the Chartered Institute of Management Accountants (CIMA), member of the International Corporate Governance Network (ICGN) and the International Policy Governance Association (IPGA).

## Mr Lim Kim Liang

Non-Executive Director

**Mr Lim Kim Liang** was appointed to our Board on 5 August 2009.

Mr Lim is an industry veteran with more than 33 years of experience in both senior and general management positions with both multi-national corporations and local companies operating in the plastic manufacturing and packaging industries.

He is currently the Chief Operating Officer of Intraco Limited.

His other appointments include President of the Singapore Plastic Industry Association and Permanent Secretary-General of the ASEAN Federation of Plastic Industries which he was involved for more than 20 years. He is also a founding member of the Asia Plastics Forum – a group consisting 12 member countries, which was formed to share and exchange information, as well as foster business ties within the region's plastic industry.

Mr Lim is not a director of any other public listed company.

## Mr Lim Teck Shu

Chief Financial Officer

**Mr Lim Teck Shu** was appointed as Chief Financial Officer of the Group on 1 July 2013. He has more than 20 years of professional experience in finance and accounting with multinational corporations and local corporations.

Mr Lim holds a Master of Professional Accounting Degree from the University of Southern Queensland, Australia. He is a member of the CPA Australia and the Association of International Accountants, UK.

# GROUP STRUCTURE

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive

Yeo Hock Leng
*(Executive Chairman and Group Managing Director)*
Goh Seok Eng
*(Deputy Group Managing Director and Technical Director)*

### Non-Executive

Soon Boon Siong *(Lead Independent Director)*
Chong Yee Siew Sebastian *(Independent Director)*
Tan Lye Huat *(Independent Director)*
Lim Kim Liang *(Non-Executive Director)*

## NOMINATING COMMITTEE

Soon Boon Siong *(Chairman)*
Chong Yee Siew Sebastian
Tan Lye Huat

## REMUNERATION COMMITTEE

Soon Boon Siong *(Chairman)*
Chong Yee Siew Sebastian
Tan Lye Huat

## AUDIT AND RISK COMMITTEE

Tan Lye Huat *(Chairman)*
Chong Yee Siew Sebastian
Soon Boon Siong

## EXECUTIVE OFFICER

Lim Teck Shu *(Chief Financial Officer)*

## SECRETARIES

Chan Wan Mei, ACIS
Tay Chee Wah, ACIS

## REGISTERED OFFICE

55A Yishun Industrial Park A,
SL Building, Singapore 768729
Tel: (65) 67523988
Fax: (65) 67523788
Web-Page: www.dynamiccolours.com

## SHARE REGISTRAR

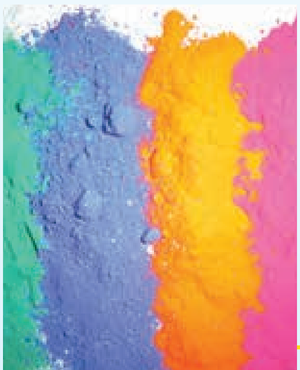
Tricor Barbinder Share Registration Services
(A division of Tricor Singapore Pte Ltd)
80 Robinson Road #02-00
Singapore 068898

## AUDITORS

KPMG LLP
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

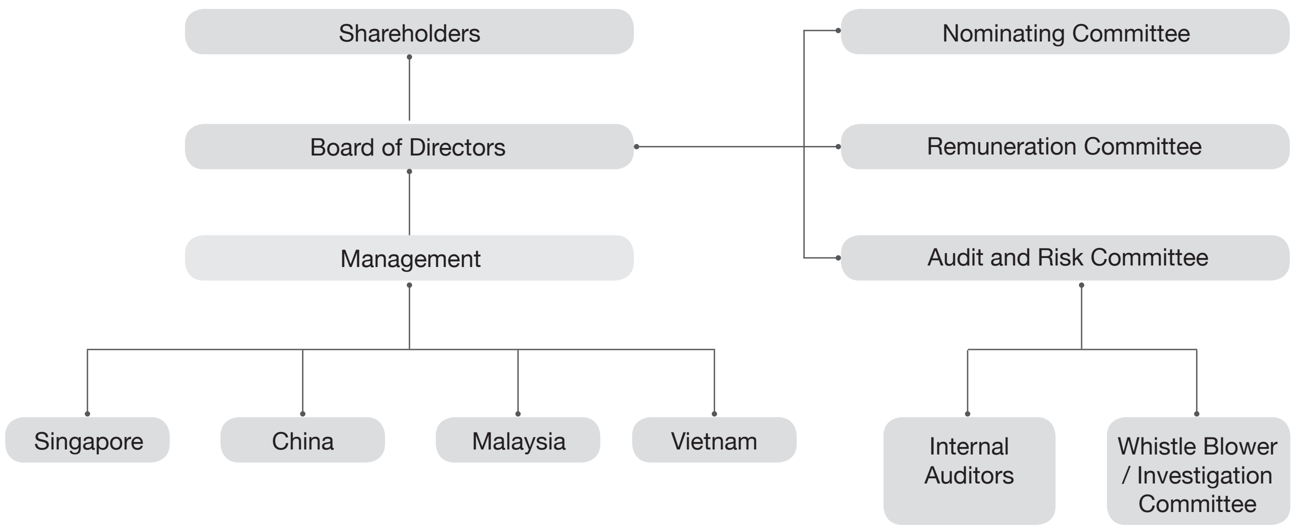
## AUDIT PARTNER-IN-CHARGE

Ronald Tay
Date of appointment : Appointed since financial year ended 31 December 2013



# CORPORATE GOVERNANCE REPORT

**CORPORATE STRUCTURE**




The board of directors (the "Board") of Dynamic Colours Limited (the "Company") continues to be committed to high standards of corporate conduct in conformity with the spirit of the Code of Corporate Governance 2 May 2012 (the "Code"). The Board confirms that the principles and guidelines of the Code have been adhered to except for the following where the deviations and explanations have been provided:-

(a) Guideline 3.1
(b) Guideline 8.2
(c) Guideline 8.3
(d) Guideline 8.4
(e) Guideline 11.4
(f) Guideline 15.3
(g) Guideline 15.4
(h) Guideline 16.1 and
(i) Guideline 16.5

The Board and Management believe that commitment to good corporate governance is essential to the sustainability of the Company's business and stakeholder's value. The Board is pleased to report on the Company's corporate governance processes and activities as required by the Code.

The following describes the Company's corporate governance practices with reference to the Code.

**THE BOARD'S CONDUCT OF AFFAIRS**

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

# CORPORATE GOVERNANCE REPORT

The Board of the Company comprises the following members:

Executive Directors

Mr Yeo Hock Leng (Executive Chairman and Group Managing Director)
Mdm Goh Seok Eng (Deputy Group Managing Director and Technical Director)

Independent Directors

Mr Soon Boon Siong (Lead Independent Director)
Mr Chong Yee Siew Sebastian
Mr Tan Lye Huat

Non-Executive Director

Mr Lim Kim Liang

**Guidelines 1.1 and 1.2: Roles of the Board**

Apart from its statutory duties and responsibilities, the Board performs the following functions:-

(a) provide entrepreneurial leadership, set strategic objectives, and ensure that the necessary financial and human resources are in place for the Group to meet its objectives;

(b) establish a framework of prudent and effective controls which enables risk to be assessed and managed, including safeguarding of shareholders' interests and the Company's assets;

(c) review management performance;

(d) set the Group's values and standards, and ensures that obligations to shareholders and others are understood and met;

(e) appointment of key personnel;

(f) review the financial performance of the Group and implementing policies relating to financial matters, which include risk management and internal control and compliance; and

(g) assuming responsibility for corporate governance.

These functions are carried out either directly or through Board Committees such as the Nominating Committee, the Remuneration Committee and the Audit Committee. The Audit Committee was renamed Audit and Risk Committee on 25 February 2015.

The Board has taken decisions objectively in the interests of the Company.

**Guideline 1.3: Delegation of Authority to Board Committees**

Matters which are specifically reserved to the full Board for decision are those involving a conflict of interest for a substantial shareholder or a Director, material acquisitions and disposal of assets, corporate or financial restructuring, share issuance and dividends, and financial results and corporate strategies.

The Board delegates its nominating functions to the Nominating Committee, remuneration matters to the Remuneration Committee, and reviewing of financial statements, risks and control to the Audit and Risk Committee.

**Guideline 1.4: Meetings of Board and Board Committees**

Formal Board Meetings are held at least twice a year to oversee the business affairs of the Group, and to approve, if applicable, any financial or business objectives and strategies. Ad-hoc meetings are convened when the circumstances require. The Company's Articles of Association allow a Board meeting to be conducted by way of tele-conference and video conference.

During the financial year, the Board held five (5) meetings and the attendance of each Director at every Board and Board committee meeting is as follows:-

| 2014 Meeting Attendance | Board | Audit and Risk Committee | Nominating Committee | Remuneration Committee |
|---|---|---|---|---|
| **Number of Meetings held** | **5** | **4** | **1** | **1** |
| **Number of Meetings attended:** | | | | |
| Yeo Hock Leng | 5 | N/A | N/A | N/A |
| Goh Seok Eng | 5 | N/A | N/A | N/A |
| Soon Boon Siong | 5 | 4 | 1 | 1 |
| Chong Yee Siew Sebastian | 5 | 4 | 1 | 1 |
| Tan Lye Huat | 5 | 4 | 1 | 1 |
| Lim Kim Liang | 5 | N/A | N/A | N/A |

*N/A: Not Applicable*

**Guideline 1.5: Internal Guidelines Require Approval from Board**

The Company has adopted internal guidelines setting forth matters that require Board approval. Under these guidelines, new capital investment and divestments exceeding US$1 million by any company within the Group require the approval of the Board. Other matters requiring the Board's decision include business strategy, budgets and quarterly, half-year and annual financial statements. Below the Board level, there is appropriate delegation of authority and approval sub-limits at Management level, to facilitate operational efficiency.

**Guidelines 1.6 and 1.7: Director's Appointment and Training**

A formal letter is sent to newly-appointed Director upon his/her appointment stating his/her duties and obligations as director. All newly appointed Directors undergo an orientation program which includes management presentation on the Group's business and strategic plans and objectives, as well as site visits.

The Board recognizes the importance of ongoing director education and the need for each Director to take personal responsibility for this process. To facilitate ongoing education:

(a) All Directors are encouraged to keep each other updated on developments relevant to the Company's business, changes in laws and regulations and the like.

(b) All Directors in particular new and first time Directors are encouraged to attend relevant courses, seminars, updating of regulation talks organized by regulatory bodies and professional institutions such as Singapore Institute of Directors and Singapore Exchange Limited. The Company has an approved budget for such on-going training for its Directors.

During the financial year 2014, certain Directors kept themselves abreast with regulatory changes; governance topics and other matters which assist them in their duties as directors by attending courses or seminars conducted by Singapore Institute of Directors, Singapore Exchange Limited, Securities Investors Association (Singapore), Institute of Singapore Chartered Accountants and other business and financial institutions and consultants. Details are as follows:-

Mr Soon Boon Siong, Mr Chong Yee Siew Sebastian and Mr Tan Lye Huat attended the courses listed below with attendance hours totalling 68 hours:-

- Integrated Reporting: An Audit Committee Perspective
- Balancing Rules and Flexibility, Corporate Governance Report
- Corporate Governance Roundtable Discussions
- Global Corporate Governance Conference 2014
- Global governance and the role of the director
- SID Directors' Conference 2014
- Revised Guidebook for Audit Committees in Singapore – What every AC member needs to know
- CFA-IRC Regional and Global Finals
- The Asean Corporate Governance Scorecard
- Singapore Directorship Report Launch
- Business Valuation & Analysis: Corporate Restructuring & Funding – Practical Applications for Decision Makers
- Ethical Issues for Accountants: Forensic Accounting & Fraud Detection
- Persuasion Quotient: widening your circle Of influence and Persuasion with NLP

**BOARD COMPOSITION AND GUIDANCE**

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

**Guidelines 2.1, 2.2 and 2.3: Composition and Independent Element of the Board**

The Board comprises six (6) Directors, one (1) of whom is non-executive and three (3) are independent. The Nominating Committee reviews the independence of each Independent Director and confirms that none of them has any relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of their independent business judgement with a view to the best interests of the Company. The Nominating Committee is of the view that the three (3) Independent Directors (who represent one-half of the Board) are independent as defined in the Code as well as being independent in character and judgment and no individual or small group of individuals dominates the Board's decision-making process. The Board concurs with the views of the NC on the independence of the three (3) Independent Directors.

No person may be appointed to the Board if he/she is already holding more than four (4) directorship appointments in any publicly listed company on the SGX or international stock exchanges if he is full-time employed or six (6) directorship appointments in any publicly listed company on the SGX or international stock exchanges if he/she does not hold any full-time employment.

**Guidelines 2.4 and 2.5: Composition and size of the Board**

The Board reviews annually, or when circumstances (such as the resignation of a director) require, the size and composition of the Board ensuring that the Board has the appropriate mix of expertise and experience. The Board, taking into account the nature of operations of the Company, considers its current size to be adequate for effective decision making.

All the Independent Directors have not served on the Board beyond nine (9) years. The independence of any director who has served on the Board beyond nine (9) years will be subject to rigorous review, taking into account the need for progressive refreshing of the Board. The Board will also explain why any such director should be considered independent.

The qualifications and experiences of the Directors are found on pages 10 and 11 of this Annual Report.

**Guidelines 2.6: Board Diversity**

The Board has, amongst its members, the relevant diversity of skills, experience, gender and knowledge of the Company. This can be seen on page 22 showing the "Key Information on Board of Directors."

**Guidelines 2.7 and 2.8: Non-Executive Directors**

Directors are encouraged and given ample time to deliberate on all matters in Board meetings. The salient views and recommendations of Non-Executive Directors are minuted and where applicable are adopted. The Independent Directors communicate amongst themselves by email or telephone on matters concerning the Company and have met without the presence of Executive Directors.

**CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

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

**Guidelines 3.1 and 3.3: Separate Role of Chairman and Chief Executive Officer ("CEO")**

The Board has not adopted the recommendation of the Code that the Chairman and the CEO should in principle be separate persons. Mr Yeo Hock Leng is our Executive Chairman and Group Managing Director and was appointed to the Board since 2 July 1993. Given Mr. Yeo's contribution to the success of the Company over the past twenty-one (21) years and the presence of a strong independent element on the Board, it is the view of the Board that there are sufficient safeguards and checks to ensure that the process of decision making by the Board is independent and no major decisions are made by an individual exercising any considerable concentration of power or influence. Furthermore, half of the Board is made up of Independent Directors and all the Board committees are chaired by Independent Directors. The Board has also appointed Mr Soon Boon Siong as the Lead Independent Director. Mr Soon is the Chairman of the Nominating & Remuneration Committee. Mr Soon is available to shareholders when they have concerns and contact through the normal channels of the Company has failed to resolve or for which such contact is inappropriate. The position of Lead Independent Director of the Company will be rotated annually after the annual general meeting ("AGM") of the Company. The Company will update the shareholders and the public of its next Lead Independent Director via an announcement through SGXNET.

**Guideline 3.2: Roles and Responsibilities of Chairman**

The Group's Executive Chairman and Group Managing Director is Mr Yeo Hock Leng. Mr Yeo's role in the Board is to lead the Board in all Board matters; promote communication amongst Directors and between Directors and key management staff; ensure and lead the Board in complying with the Code and all other statutory regulations or regulatory guidelines.

**Guideline 3.4: Role of Lead Independent Director**

Besides the Lead Independent Director making him available to shareholders when they have concerns and contact through the normal channels of the Company has failed to resolve or for which such contact is inappropriate, he also initiates at least one (1) meeting during the financial year with the other Independent Directors. Such meeting(s) are held without the presence of the other Directors. Where applicable, appropriate feedback will be made to the Executive Chairman and the Group Managing Director.

## BOARD MEMBERSHIP

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

**Guideline 4.1: Nominating Committee ("NC") Membership**

The current NC comprises the following 3 members, all non-executive and independent:

(a) Mr Soon Boon Siong (Chairman);
(b) Mr Chong Yee Siew Sebastian; and
(c) Mr Tan Lye Huat.

The Board has approved the written terms of reference of the NC. The main terms of reference are:-

(a) be responsible for the re-nomination of the Company's Directors, having regard to the Director's contribution and performance;

(b) determine annually whether or not a Director is independent, bearing in mind the guidelines set out in the Code of Corporate Governance 2005 (as the same may be amended or supplemented from time to time) and any other salient factors;

(c) decide whether or not a Director is able to and has been adequately carrying out his duties as a Director;

(d) regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared with its current position and make recommendations to the Board with regard to any changes;

(e) give full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future;

(f) be responsible for identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise;

(g) before any appointment is made by the Board, evaluate the balance of skills, knowledge and experience on the Board and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Committee shall consider candidates on merit and against objective criteria, taking care that appointees are able to devote sufficient time to the position and

(h) keep under review the leadership needs of the organization, both executive and non-executive, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace.

**Guidelines 4.2: Roles of NC**

The NC shall also make recommendations to the Board concerning:-

(a) the re-appointment of any non-executive director at the conclusion of his specified term of office having given due regard to his performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;

(b) the re-election by shareholders of any director under the "retirement by rotation" provisions in the Company's Articles of Association having due regard to his performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;

(c) the review of board succession plans for the Executive Chairman and Group Managing Director and other Directors;

(d) the review of training and professional development programs for the Board; and

(e) any matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Company.

All Directors are subject to the provisions of the Company's Articles of Association whereby one-third of the Directors for the time being are required to retire and subject themselves to re-election by shareholders at every AGM. A newly appointed Director must retire and submit himself for re-election at the AGM immediately following his appointment and thereafter, is subjected to the one-third rotation rule.

Mdm Goh Seok Eng and Mr Tan Lye Huat are subject to retirement pursuant to the Company's Articles of Association at the forthcoming AGM. The NC recommended that Mdm Goh Seok Eng and Mr Tan Lye Huat be nominated for re-election at the forthcoming AGM. In making the recommendation, the NC had considered their overall contribution and performance. Each member of the NC abstains from voting on any resolutions in respect of the assessment of his performance or re-nomination as Director.

Annually, the NC discusses with the Executive Chairman the issue of succession planning for himself as well as senior management. The Board is kept informed of such discussions.

**Guideline 4.3: NC's Determination of Independent Director's Independence**

Annually, all Independent Directors are to submit to the NC and Board for review and concurrence, written confirmations on whether they consider themselves to be independent as set forth in the Code. The Independent Directors have confirmed that they are independent and the same has been confirmed by the NC and the Board.

**Guideline 4.4: Commitments of Directors Sitting on Multiple Boards**

The Board has adopted internal guidelines addressing competing time commitments that are faced when Directors serve on multiple boards. The guidelines provide that each full-time Director should hold not more than six (6) listed company representations. All Directors are also required to submit to the NC details of other directorships held by them during the financial year as well as information on other major appointments including full-time employment. In such submission, they are required to confirm that they have sufficient time to pay attention to the affairs of the Company. Having reviewed the submissions, in respect of FY2014, the NC is of the view that the Directors are able to carry out their duties as Directors of the Company and each Director has discharged his/her duties adequately.

**Guideline 4.5: Alternate Directors**

The Company's Memorandum & Articles of Association provides for the appointment of alternate directors in Article 108. The Board has decided that it will, as stated in the Code, generally avoid approving the appointment of alternate directors and should any appointment be made, it will be for limited periods only.

**Guideline 4.6: Process for Selection and Appointment of New Directors**

Where a vacancy arises under any circumstances, or where it is considered that the Board would benefit from the services of a new director with particular skills, the NC, in consultation with the Board, determines the selection criteria and selects candidates with the appropriate expertise and experience
for the position.

Generally, the NC will review annually the Board's composition and should the need arises to appoint replacement and/or new directors, it will review nominations from Board members. In its review, NC takes into account the relevant skill sets, qualifications, conflicts of interests and other commitments.

The NC will interview the nominees and recommend to the Board the most appropriate person to be invited to become a Director of the Company.

**Guideline 4.7: Key Information on Directors**

Key information regarding Directors are as follows:

| KEY INFORMATION ON BOARD OF DIRECTORS | | | | | | |
|---|---|---|---|---|---|---|
| **Name of Director** | **Directorship:**<br>**(a) Date First Appointed**<br>**(b) Date Last Elected** | **Board appointments whether executive or non-executive and whether considered to be independent on the Board of Dynamic Colours Limited** | **Board Committee as Chairman or Member** | **Past Directorships in other listed companies and other major appointments over the preceding three years** | **Present Directorships in other listed companies and other major appointments** | **Due for Re-election at next AGM** |
| Mr Yeo Hock Leng | (a) 2 July 1993<br>(b) 17 April 2014 | Executive and Non-Independent | Executive Chairman – Board<br><br>Group Managing Director | Nil | Nil | NA |
| Madam Goh Seok Eng | (a) 2 July 1993<br>(b) 24 April 2012 | Executive and Non-Independent | Deputy Group Managing Director and Technical Director | Nil | Nil | Retirement pursuant to Article 103 |
| Mr Soon Boon Siong BBA- University of Singapore 1972 | (a) 22 April 2011<br>(b) 17 April 2014 | Non-Executive and Lead Independent | Chairman – Nominating and Remuneration Committees<br><br>Member – Audit and Risk Committee | Nil | 1. Non-Executive and Independent Director – Tai Sin Electric Limited<br>2. Managing Director, Corporate Finance, Partners Capital (Singapore) Pte Ltd | NA |
| Mr Chong Yee Siew Sebastian FCA Singapore, FCPA Australia, MEc Syd, BAcc (Hon) Sing | (a) 24 Sep 2007<br>(b) 23April 2013 | Non-Executive and Independent | Member – Audit and Risk Committee, Nominating and Remuneration Committees | Nil | Managing Director, Financial Info Analysis Pte Ltd | NA |
| Mr Tan Lye Huat ISCA Singapore, FCCA, C. Dir. | (a) 23 May 2011<br>(b) 24 April 2012 | Non-Executive and Independent | Chairman – Audit and Risk Committee<br><br>Member – Nominating and Remuneration Committees | Singapore Kitchen Equipment Limited | Non-Executive and Independent Director:<br>1. SP Corporation Limited<br>2. Japan Foods Holding Ltd<br>3. Neo Group Limited<br>4. Nera Telecommunications Ltd | Retirement pursuant to Article 103 |
| Mr Lim Kim Liang | (a) 5 August 2009<br>(b) 23 April 2013 | Non-Executive and Non-Independent | Member - Board | Nil | 1. Chief Operating Officer – Intraco Limited<br>2. President – Singapore Plastic Industry Association | NA |

## BOARD PERFORMANCE

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

### Guidelines 5.1 to 5.3: Formal Process and Performance Assessment

The NC has adopted a formal process for the evaluation of the performance of individual Director, Board Committees and the Board as a whole.

### Evaluation Process

The assessment process involves and includes input from the Board members and individual Director in self evaluation and peer review, applying the performance criteria recommended by the NC and approved by the Board. The Directors' input are collated and reviewed by the Chairman of the NC, who presents a summary of the overall assessment to the NC for review. Areas where the Board's performance and effectiveness could be enhanced and recommendations for improvement are then submitted to the Board for discussion and for implementation.

<u>Board Performance Criteria</u>

The performance criteria for the Board evaluation are as follows:-

- Board skills set / competency
- Financial target and operating performance
- Board performance in relation to discharging its principal functions
- Board's relationship with the Executive Chairman and Group Managing Director
- Board Committees in relation to discharging their responsibilities set out in their respective terms of reference

<u>Individual Director's Performance Criteria</u>

The individual Director's performance criteria are categorized into five segments, namely:-

- Interactive skills
- Knowledge
- Director's duties
- Availability
- Overall contribution

<u>Executive Chairman and Group Managing Director Performance Criteria</u>

The performance criteria for the Executive Chairman and Group Managing Director are as follows:-

- Vision and leadership
- Financial management
- Board relations
- Governance and risk management
- Relations with shareholders

The NC, without the engagement of an external facilitator, has performed the assessment for FY2014 and is of view that the performance of individual Director and the Board as a whole were satisfactory. Although some of the Board members have multiple board representations and other work commitments, the NC is satisfied that sufficient time and attention have been given by the Directors to the Group.

## ACCESS TO INFORMATION

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

**Guidelines 6.1 and 6.2: Access to Information**

To assist the Board in fulfilling its responsibilities, management is required to provide the Board with complete, adequate and timely information prior to each Board meeting. In addition, management is required to provide the Board with monthly financial and management reports.

**Guidelines 6.3 and 6.4: Role of the Company Secretary**

Directors have separate and independent access to the Company Secretary at all times. The Company Secretary's appointment and removal is a matter for the Board as a whole. Her role is defined in the appointment letter and covers both regulatory and procedural matters. The Company Secretary or her representative attended all scheduled FY2014 Board and Board Committees meetings.

**Guideline 6.5: Board Access to Independent Professional Advice**

If any of the Directors require independent professional advice in the furtherance of their duties, the cost of such professional advice will be borne by the Company subject to Board's approval.

## REMUNERATION MATTERS

**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.**

**Guideline 7.1: Remuneration Committee ("RC")**

The current RC comprises the following 3 members, all non-executive and independent:

(a) Mr Soon Boon Siong (Chairman);
(b) Mr Chong Yee Siew Sebastian; and
(c) Mr Tan Lye Huat.

The Board has approved the written terms of reference of the RC. The main term of references are:-

(a) recommend to the Board a framework of remuneration and the specific remuneration packages for each Director, the Chief Executive Officer (or executive of equivalent rank) if the Chief Executive Officer is not a director and each other Executive Officer. The recommendations of the Remuneration Committee should be submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind shall be covered by the Committee;

(b) in determining the remuneration policy for the Directors and Executive Officers of the Company, the Committee shall take into account all factors which it deems necessary. The objective of such policy shall be to ensure that the level of remuneration is appropriate to attract, retain and motivate the Directors and Executive Officers needed to run the Company successfully, such level of remuneration not being overly excessive; and

(c) review what compensation commitments the Directors' and Executive Officers' contracts of service, if any, would entail in the event of early termination. The Committee should aim to be fair and avoid rewarding poor performance.

**Guideline 7.2: Remuneration Framework**

The RC reviews annually the remuneration of Directors and senior management executives. For the Executive Directors, their remuneration is stated in their service agreement and their compensation packages consist of salaries, bonuses, benefits-in-kind and annual profit sharing incentive bonus that is dependent on the Group's performance. For the Non-Executive Directors, their fees comprise basic director fee and their respective appointment fees. For senior management staff, the remuneration components include salaries, allowances, bonuses and benefits-in-kind.

**Guideline 7.3: RC Access to advice on Remuneration Matters**

The RC may from time to time obtain independent professional advice as it deems necessary in framing the remuneration of Directors. The expenses incurred from such advice shall be borne by the Company.

**Guideline 7.4: Fair and Reasonable Termination Terms**

The RC has reviewed the Group's obligations arising in the event of termination of the Executive Directors' and key management personnel's contracts of service and is satisfied that termination terms are fair and reasonable and are not overly generous.

**LEVEL AND MIX OF REMUNERATION**

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

**Guidelines 8.1: Remuneration of Executive Directors**

The Company sets remuneration packages which:

(a) align interests of Executive Directors with those of shareholders;

(b) link rewards to corporate and individual performance; and

(c) are competitive and sufficient to attract, retain and motivate Directors and senior management with adequate experience and expertise to manage the business and operations of the Group.

The performance-related elements of the Executive Directors are governed by their service agreements which since the listing of the Company on the SGX-ST on 23 November 2007 provided them with annual profit sharing incentive bonus (the "Incentive Bonus") based on the consolidated net profit before income tax, extraordinary items, exceptional items and minority interests (before the Incentive Bonus) of the Group (as reflected in the audited consolidated accounts of the Group) for the relevant financial year.

**Guideline 8.2: Long Term Incentive Scheme**

The Company, given its small market capitalization on the Singapore Exchange, does not have any long-term incentive scheme for its Directors and key management personnel (other than the employee share option scheme which has not been implemented since its approval by shareholders). For the same reason, there is no policy which requires Non-Executive Directors to purchase shares in the Company and hold them till the leave the Board.

**Guideline 8.3: Remuneration of Non-Executive Directors**

The fees of Non-Executive Directors for FY2014 were in accordance with the remuneration framework shown in the table below and amounted to S$192,000 approved by shareholders at the last AGM.

The RC has assessed the adequacy and structure of remuneration of Non-Executive Directors and the Board is proposing, for Shareholder approval at the forthcoming AGM, the same remuneration framework approved by Shareholders for FY2014 to apply in FY2015 as shown in the table below.

| | Proposed for FY2015 | | | FY2014 | | |
|---|---|---|---|---|---|---|
| | Annual Fees (S$) | | Meeting Allowance | Annual Fees (S$) | | Meeting Allowance |
| | Chairman | Member | | Chairman | Member | |
| Board | 40,000 | 30,000 | NIL | 40,000 | 30,000 | NIL |
| Audit | 16,000 | 10,000 | NIL | 16,000 | 10,000 | NIL |
| Nominating | 8,000 | 4,000 | NIL | 8,000 | 4,000 | NIL |
| Remuneration | 8,000 | 4,000 | NIL | 8,000 | 4,000 | NIL |
| Lead Independent | N/A | 4,000 | NIL | N/A | 4,000 | NIL |

If these fees are approved and there is no change to the Board or Committee membership, the total fees for FY2015 will amount to S$192,000.

Directors' fees are only payable to Non-Executive Directors. The FY2014 fees and proposed fees for FY2015 are not payable to Executive Directors.

For the existing Independent Non-Executive Directors, the Board believes that they were not and will not be over-compensated to the extent that their independence may be compromised.

The Company does not have any scheme which encourage its Non-Executive Directors to hold shares in the Company. The Board believes that notwithstanding such absence, the Non-Executive Directors' interests in the company is still in line with the interests of its shareholders.

**Guideline 8.4: Incentive Components**

The Board has not introduced any contractual provisions to allow the Company to reclaim incentive components from executive directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the company. The Board believes that there are sufficient statutory and regulatory penalties in place to address such incidents.

**DISCLOSURE ON REMUNERATION**

**Principle 9: Every 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 management personnel, and performance.**

**Guidelines 9.1 and 9.2: Remuneration of Directors**

The remuneration of Non-Executive Directors has been detailed under Guideline 8.3 above.

No payment was made or granted to any Director, the Executive Chairman and Group Managing Director or the top five key management personnel in relation to termination, retirement and post-employment benefit in FY2014.

The remuneration paid to the Directors for services rendered during FY2014 are as follows:-

| Director | Remuneration (S$'000) | Director's Fees | Salary & CPF | Bonus & Other Variable Performance Components | Total |
|---|---|---|---|---|---|
| Yeo Hock Leng | 414 | - | 80.7% | 19.3% | 100% |
| Goh Seok Eng | 340 | - | 83.0% | 17.0% | 100% |
| Soon Boon Siong | 60 | 100% | - | - | 100% |
| Chong Yee Siew Sebastian | 48 | 100% | - | - | 100% |
| Tan Lye Huat | 54 | 100% | - | - | 100% |
| Lim Kim Liang | 30 | 100% | - | - | 100% |

**Guideline 9.3: Remuneration of Top Five Key Management Personnel**

The table below sets out the remuneration received by the top five key management personnel of the Group during the financial year.

| Remuneration Band | Key Management Personnel | Salary & CPF | Bonus & Other Variable Performance Components | Total |
|---|---|---|---|---|
| **Below S$250,000** | Lim Teck Shu | 83.4% | 16.6% | 100% |
| | Toh Li Yen | 87.5% | 12.5% | 100% |
| | Zhang Ping | 84.4% | 15.6% | 100% |
| | Pun Lay Peng | 86.2% | 13.8% | 100% |
| | He Fong Wei | 77.9% | 22.1% | 100% |

The aggregate remuneration paid to the above personnel was S$408,000 in FY2014.

No Director is involved in determining his own remuneration. The remuneration of the Non-Executive and Independent Directors is in the form of a fixed fee. The remuneration of the Non-Executive and Independent Directors will be subject to approval at the AGM.

**Guideline 9.4: Employee Related to Directors/CEO**

The Company does not have any employee (who is an immediate family member of a Director) whose remuneration exceeds S$50,000 during the year.

**Guideline 9.5: Employee Share Scheme**

**Employee Share Option Scheme**

The Company has a share option scheme known as Dynamic Colours Employee Share Option Scheme (the "Scheme") which was approved by shareholders of the Company on 26 September 2007. The Scheme complies with the relevant rules as set out in Chapter 8 of the Listing Manual. The Scheme will provide eligible participants with an opportunity to participate in the equity of the Company and to motivate them towards better performance through increased dedication and loyalty. The Scheme is administered by the RC. No share options have been issued by the Company under the Scheme.

**Guideline 9.6: Remuneration and Performance**

The Company's remuneration framework for its Executive Directors is stated in "Guidelines 8.1: Remuneration of Executive Directors" found on page 25 of this Annual Report.

For key management personnel, in addition to their monthly salary, they also receive the annual wage supplement of one (1) month plus a performance bonus. The performance bonus amount is dependent on their individual performance as measure by their respective key performance indicators, as well as the performance of the Group as a whole.

The Company does not have any long-term incentive schemes as explained in "Guideline 8.2: Long Term Incentive Scheme" found on page 25 of this Annual Report.

**ACCOUNTABILITY AND AUDIT**

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

**Guideline 10.1: Accountability for Accurate Information**

In discharging its responsibility of providing accurate relevant information on a timely basis, the Board ensures that the Group's audited financial statements and half-yearly and full year announcements of the Group's results provide a balanced and understandable assessment of the Group's performance, position and prospects and the results are released in a timely manner.

The quarterly, half yearly and full year financial statements are reviewed for adoption at the quarterly meetings of the Audit Committee and the Board. Any material variances between the actual results and projections/previous periods are investigated and explained.

On a monthly basis, the CEO and CFO issue a representation letter to the Audit and Risk Committee on matters requiring disclosure under Chapter 7 of the SGX-ST Listing Manual.

In accordance with SGX-ST's requirements, the Board issued negative assurance statements in its half yearly financial results announcements confirming to the best of its knowledge, that nothing had come to the attention of the Board which might render the financial statements false or misleading in any material aspect.

**Guideline 10.2: Compliance with Legislative and Regulatory Requirements**

During the year, the Board reviewed legislative and regulatory compliance reports from management to ensure compliance with the Group's policies, practices, and procedures and relevant legislative and regulatory requirements. The Company established a requirement for finance heads of individual subsidiaries to provide written representation in a specific template to the CEO and CFO, whom in turn have provided assurance to the Board on the integrity of the financial statements for the Company and its subsidiaries for FY2014.

**Guideline 10.3: Management Accounts**

The Management updated the Board regularly on the Group's business activities and financial performance through providing management accounts on monthly basis and review at quarterly Audit and Risk Committee meeting. Such reports compared the Group's actual performance against the approved budgets and the results of the previous year and where appropriate, against forecast. The Management also highlighted major issues that are relevant to the Group's performance at quarterly Board meeting in order for the Board to make balanced and informed assessment of the Group's performance, position and prospects.

**RISK MANAGEMENT AND INTERNAL CONTROLS**

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

**Guideline 11.1: Design, Implementation and Monitoring**

The Board recognises the importance of maintaining a sound system of risk management and internal controls to safeguard the shareholders' interests and the Group's assets. The Audit and Risk Committee oversees and ensures that such system has been appropriately implemented and monitored.

The Company has a Code of Conduct ("CC") which is given to all new employees. Employees have to acknowledge that they have read and understand the significance of the CC in the conduct of their work. The CC covers issues such as employees' integrity; duty of care; competence; safeguarding of intellectual property; misuse of information; conflict of interests and abuse of position; insider trading; dealings with gifts and entertainment; and conduct relating to dealings with the media and regulators.

**Risk Management**

During the year, the Group has adopted an ERM framework to enhance its risk management capabilities. A total of 21 risks have been identified and classified under 3 categories, namely Business and Strategic Risks, Financial risks and Operational (including Information Technology) Risks. The Group adopts a 3-dimensional Risk Evaluation Model risks to assess on the exposure, designed treatment plan and remedial action. Risk types are assigned with risk exposure rating based on the likelihood and consequence of each risk identified. The risk exposure rating determines the extent of risk exposure and the treatment plan. The Group's Risk Management Framework's focus is on building a culture where the Group mitigates its risk exposure by calibrating risks to acceptable levels while achieving the Group's business plans and goals.

The risk management system has been integrated throughout the Group and has become an essential part of its business planning and monitoring process. On an annual basis, the Audit and Risk Committee will review and reports to the Board on the Group's risk profile, evaluate results and control measures to mitigate or transfer identified potential risks so as to provide assurance to itself and the Board that the process is operating effectively as planned.

The Group recognises risk management as a collective effort beginning with the individual subsidiaries and business units, followed by the operating segments and ultimately the Management and the Board, working as a team. A self-assessment process, conducted regularly by Management, will be introduced to ensure that the Group's risk management activities are satisfactory.

**Internal Controls**

A conventional internal control system has been implemented to enhance the Group's internal control function to address the financial, operational, compliance and information technology risks. The internal control measures aim to ensure that the Group's assets are safeguarded, proper accounting records are maintained, and financial information used within the business and for publication is reliable.

**Staff/Director Securities Dealing Rules & Procedures**

All heads of departments and Directors are strictly prohibited from dealing in the shares of the Company by taking advantage of insider information. They are advised not to trade in the shares of the Company on short term consideration. Further, they are not permitted to trade during certain periods of the financial year ("black-out periods"). The black-out periods are one (1) month prior to the announcement of the Company's financial statements for the first six (6) months of its financial year and one (1) month prior to the announcement of the Company's full year financial statements and ending on the day of the announcements. Prior to their trading of shares of the Company, such employees and Directors have to seek written approval from the Executive Chairman and Group Managing Director and the Board of Directors respectively. In their application, they have to confirm that they are aware of their legal and regulatory obligations regarding (i) timely disclosure of their transaction, if applicable; (ii) obligations under the Singapore Code on Take-Overs and Mergers; (iii) prohibition during the black-out periods; and (iv) insider trading rules.

**Guideline 11.2: Adequacy and Effectiveness of Risk Management and Internal Control Systems**

The Board acknowledges its responsibility for the Group's internal controls but recognises that no cost effective control system will entirely eliminate the risk of misstatement or loss. Based on the internal controls established and maintained by the Group, the work performed by the Internal Auditors, the review undertaken by the External Auditors as part of their statutory audit, supervision by Management and in the absence of any evidence to the contrary, the Board, with the concurrence of the Audit and Risk Committee, are of the opinion that the Group's internal controls are adequate in addressing financial, operational, compliance and information technology risks as at 31 December 2014.

During the year, the Audit and Risk Committee reviewed reports submitted by the Internal Auditors relating to the adequacy and effectiveness of the Group's internal controls, including the adequacy of the Group's financial, operational, compliance and information technology and existing risk management self-assessments by Management (collectively known as "internal controls"). Such reviews include discussions and follow-ups with Internal Auditors on their salient audit findings.

**Guideline 11.3: Board's Comment on Adequacy and Effectiveness of Internal Controls**

The Audit and Risk Committee and the Board has received assurance from the CEO and CFO that:

(a) The financial records of the Group have been properly maintained and the financial statements for the year ended 31 December 2014 give a true and fair view of the Group's operations and finances; and

(b) The system of risk management and internal controls in place within the Group is adequate and effective in addressing the material risk in the Group in its present business environment including material financial, operational, compliance and information technology risks.

Based on the framework of risk management controls and internal controls established and maintained in the Company, the work performed by the internal auditors and the review undertaken by the external auditors as part of their statutory audit, the written assurance from the CEO and CFO that the financial records have been properly maintained, the Board is of the view that the Group's risk management and internal control systems are effective.

The Board, with the concurrence of the Audit and Risk Committee, is satisfied that there are adequate internal controls in place to address the risks relating to financial, operational, compliance and information technology controls for the financial year ended 31 December 2014.

**Guideline 11.4: Risk Committee**

The responsibility of overseeing the Company's risk management framework and policies is undertaken by the Audit and Risk Committee with the assistance of the internal and external auditors. Having considered the Company's business operations as well as its existing internal control and risk management systems, the Board is of the view that a separate risk committee is not required for the time being. As recommended by the 2nd Edition of the Guidebook for Audit Committees in Singapore, the Audit Committee ("AC") was renamed Audit and Risk Committee ("ARC") on 25 February 2015, guided by revised Term of Reference.

**AUDIT AND RISK COMMITTEE ("ARC")**

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

**Guideline 12.1: ARC Membership**

The ARC comprises the following three (3) Directors, all of whom, including the Chairman, are non-executive and independent:

(a) Mr Tan Lye Huat, Chairman
(b) Mr Chong Yee Siew Sebastian
(c) Mr Soon Boon Siong

During the year, the ARC held four (4) scheduled meetings, which were attended by all members.

**Guideline 12.2: Expertise of ARC Members**

The ARC members bring with them invaluable professional expertise in the recommended accounting and/or related financial management domains. The Board has ensured that they are appropriately qualified to discharge their responsibilities.

**Guideline 12.3 and 12.4: Roles, Responsibilities and Authorities of ARC**

The ARC has explicit authority to investigate any matter within its Terms of Reference. It has full access to and has the full co-operation of the Company's Management. It has full discretion to invite any Director or executive officer to attend its meetings. In addition, the ARC has independent access to the Internal and External Auditors. The ARC has reasonable resources to enable it to discharge its functions properly.

The ARC is guided by its Terms of Reference which stipulate that its principal functions include:

(a) reviewing and evaluating financial and operating results and accounting policies;
(b) reviewing the annual audit plans (Internal and External), their evaluation of the system of internal accounting controls and their audit reports;
(c) reviewing the overall system of internal control and risk management system including their adequacy and effectiveness;
(d) reviewing the adequacy of the outsourced internal audit function;
(e) reviewing the Group's financial results and the announcements before submission to the Board for approval;
(f) reviewing the assistance given by the Management to External Auditors;
(g) considering and recommending the appointment/re-appointment of External Auditors and their remuneration;
(h) reviewing interested person transactions;
(i) reviewing acquisitions and realisations transactions; and
(j) other regulatory compliance matters as required by law or the Code.

**Guideline 12.5: Meeting with External and Internal Auditors**

During the year, the Company's Internal and External Auditors were invited to attend the AC meetings and make presentations as appropriate. They also met the ARC separately without the presence of Management to review matters that might be raised privately.

**Guideline 12.6: Review of External Auditors' Independence**

The ARC reviewed the non-audit services provided by the External Auditors as part of the ARC's assessment of the External Auditors' independence. During the financial year, the External Auditor provided tax advisory services to the Group. The ARC reviewed and satisfied that the nature and extent of such services would not conflict with the independence of the external auditors. The ARC is satisfied with the independence and objectivity of the External Auditor. The fees paid to External Auditors in respect of audit and non-audit services are disclosed in Note 21 to the financial statements on page 69.

To manage the Company's overall business costs and to enhance its cost efficiency, the ARC are of the opinion that it will be in the interest of the Company to consider a change to another audit firm, where all entities within the Group will be audited by the same auditor. The ARC recommends the appointment of BDO LLP to replace KPMG LLP, the statutory auditor of the Company and its subsidiary, S.L. Packaging Industries Pte. Ltd.

Following a review of the fee quotation and proposed audit plans from BDO LLP, the Directors accept the ARC recommendation for the appointment of BDO LLP with effect from FY2015, subject to the approval of the Shareholders at the AGM.

**Guideline 12.7: Whistle-Blowing Policy**

To encourage proper work ethics and eradicate any internal improprieties, unethical acts, malpractices, fraudulent acts, corruption and/or criminal activities in the Group, the Company has established and put in place a Whistle-Blowing Policy and procedures to provide employees with well-defined and accessible channels within the Group for reporting suspected fraud, corruption, dishonest practices, or raise concerns, in confidence, about possible improprieties in financial reporting, business transactions or other matters. Details of this policy, which is bilingual, have been disseminated and made available to all employees of the Company.

The whistle-blower can report to the ARC members via dedicated email (arc@dynamiccolours.com) or by mail and address to the ARC members directly. An Investigation Committee ("IC") had been formed and it comprise ARC Chairman/ARC member and one (1) independent manager as recommended by the CEO. All reports made/received shall be thoroughly investigated with great care and sensitivity by the IC with the objective of locating evidence that either substantiates or refutes the claims made by the whistle-blower. The ARC may enlist, at the expense of the Company, the assistance of appropriate external advice where necessary. The IC will put up Investigation Report to the CEO for his review and further action, if deemed required. The ARC and Management will also report quarterly at ARC meeting if there is any issue received by it and reports on the whistle-blowing cases for them to review if decisions taken have met compliance.

Investigation results are confidential and will not be disclosed or discussed with anyone, other than those with a legitimate need to know. The whistle-blowers may not be updated on the outcome of the investigations other than to receive confirmation that the matter have been dealt with by the ARC members.

**Guideline 12.8: Activities of ARC**

During the year, the ARC held four (4) scheduled meetings which all members attended as disclosed under Guideline 1.4. The ARC discharged its duties under its Terms of Reference and as listed under Guideline 12.4 above In addition to the activities undertaken to fulfill its responsibilities, the ARC kept abreast on changes to accounting standards, SGX-ST rules and other codes and regulations which could have an impact on the Group's business and financial statements through briefings and updates by the internal and external auditors, the Company Secretary and Management.

**Guideline 12.9: Cooling-off Period for Partners or Directors of the Company's Auditing Firm**

No former partner or director of the Company's existing auditing firm or auditing corporation is a member of the ARC.

**INTERNAL AUDIT**

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

**Guideline 13.1: Internal Auditors**

The ARC's responsibilities over the Group's internal controls and risk management are complemented by the work of the Internal Auditors ("IA"). The Company recognises and supports the fundamental principle of maintaining internal auditor independence. The Company outsourced its internal audit function to UHY Lee Seng Chan & Co. The IA has unrestricted access to all the Company's documents, records, properties and personnel, including access to the ARC. The IA's primary line of reporting is to the Chairman of the ARC.

**Guideline 13.2: Adequacy of Resources**

An annual audit plan which entails the review of the adequacy and effectiveness of the Company's material internal controls has been developed. The ARC is satisfied that the Company's internal audit function, as outsourced to UHY Lee Seng Chan & Co., is adequately resourced to perform the internal audit effectively for the Group.

**Guidelines 13.3 & 13.4: Internal Audit Function**

The Company outsourced its internal audit function to UHY Lee Seng Chan & Co. which is a corporate member of the Institute of Internal Auditors Singapore and staffed with professionals with the relevant qualifications and experience. Our engagement with the IA stipulates that its work shall comply with Business Process Auditing Methodology which is guided by the International Standards for the Professional Practice of Internal Auditing (IIA Standards) issued by the Institute of Internal Auditors.

At the beginning of each year, an annual internal audit plan which entails the review of the selected functions or business units of the Group is developed and agreed by the ARC. The ARC is satisfied that the Company's internal audit function is adequately resourced to perform the job for the Group.

**Guideline 13.5: Adequacy of Internal Audit Function**

The ARC annually reviews the adequacy of the Internal Audit function to ensure that the internal audits are conducted effectively and that Management provides the necessary co-operation to enable the IA to perform its function. The ARC also reviews the IA reports and remedial actions implemented by Management to address any internal control inadequacies identified.

## SHAREHOLDER RIGHTS AND RESPONSIBILITIES

### SHAREHOLDER RIGHTS

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

**Guideline 14.1: Communication with Shareholders**

In line with the continuous disclosure obligations under the Listing Rules of the SGX-ST, the Board will inform shareholders promptly of all major developments that may have material impact on the Group which would be likely to materially affect the price or value of the Company's shares.

**Guideline 14.2: Participation by Shareholders**

Shareholders have been given the opportunity to participate effectively in and vote at the Company's annual general meetings. They are also informed of the rules, including voting procedures governing the annual general meetings.

**Guideline 14.3: Proxies for Nominee Companies**

Whilst there is no limit imposed on the number of proxy votes for nominee companies, the Articles of Association of the Company allow each shareholder to appoint up to two (2) proxies to attend annual general meetings. The company also allows shareholders who hold shares through their CPF approved nominees to attend the AGM as observers.

### COMMUNICATION WITH SHAREHOLDERS

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

**Guidelines 15.1 and 15.2: Information to Shareholders**

In line with the continuous disclosure obligations under the Listing Rules of the SGX-ST, the Board has and will continue to inform Shareholders promptly of all pertinent information. Such information is disclosed to Shareholders on a timely basis through SGXNET. All disclosures submitted to the SGX-ST on SGXNET are also made available on the Company's corporate website (http://dynamiccolours.com/html/index.php).

**Guidelines 15.3 and 15.4: Dialogue with Shareholders**

The Group has a Investor Relations Team ("IR Team") comprising the Executive Chairman and Group Managing Director, the Deputy Group Managing Director and Technical Director and the Chief Financial Officer. The IR Team, led by the Executive Chairman and Group Managing Director, is authorised by the Board to act as spokesperson for the Company. Shareholders may pose their queries to them through the Company's website (http://www.dynamiccolours.com/html/index.php). To-date, given the nature of the Company's business which has not materially changed since the Company's listing on the SGX-ST in November 2007, the Company has not solicited the views of Shareholders other than those expressed by them during its AGMs. Further during the year, the Company did not receive calls or emails requesting information from Shareholders.

**Guideline 15.5: Dividend Policy**

The Company has paid dividends to Shareholders every year since its listing on SGX-ST. While it does not have a dividend policy, the Board in considering dividend payments has and will take into account factors such as the Company's earnings, financial condition, capital requirements, business expansion plans and cash flow. There can be no assurance that dividends will be paid in the future or of the amount or timing of any dividends that will be paid in the future. In the event that dividends are not paid, the Company will disclose their reasons accordingly.

## CONDUCT OF SHAREHOLDER MEETINGS

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

**Guideline 16.1: Absentia Voting**

The Company has decided, for the time being, not to implement voting in absentia until security, integrity and other pertinent issues are satisfactorily resolved.

**Guideline 16.2: Resolutions at General Meetings**

The Board ensures that there are separate resolutions at general meetings on each distinct issue.

**Guideline 16.3: Attendees at General Meetings**

The Chairmen of the Board and its committees attend all general meetings to address issues raised by shareholders. The External Auditors are also present to address shareholders' queries about the conduct of audit and the preparation and content of the auditors' report.

**Guideline 16.4: Minutes of General Meetings**

The minutes of general meetings as recorded by the Company Secretary include comments or queries from shareholders and responses from the Board. These minutes are made available to shareholders upon written request.

**Guideline 16.5: Voting by Poll**

The Company will make the necessary amendments in due course to its Articles of Association to allow for the mandatory voting by poll for all resolutions proposed at its general meetings. It will be evaluating the cost/benefit of employing electronic polling and should it be cost effective, the Company will implement it.

**Dealings In Securities**
**(Listing Manual Rule 1207(19))**

The Group has adopted a policy with respect to dealings in securities by the Directors and executive officers of the Group. Directors, Management and officers of the Group who have access to price-sensitive, financial or confidential information are not permitted to deal in Company's shares during the periods commencing one (1) month before the announcement of the Group's annual or half-yearly results and ending on the date of announcement of the relevant results, or when they are in possession of unpublished price-sensitive information on the Group. They are also discouraged from dealing in the Company's shares for short-term considerations. To provide further guidance to employees on dealings in the Company's shares, the Company has adopted a code of conduct on transactions in the Company's shares. The code of conduct is modeled after the SGX-ST's best practices with respect to dealings in securities by the Directors and officers of the Group.

**Material Contracts**
**(Listing Manual Rule 1207(8))**

Save for the service agreements between the Company and the Executive Directors, there were no material contracts of the Company or its subsidiaries involving the interest of any Director or controlling shareholder subsisting at the end of the financial year ended 31 December 2014.

**Interested Person Transactions**
**(Listing Manual Rule 907)**

The Company has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the ARC and that the transactions are carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

The Group confirms that there was no interested person transaction of more than S$100,000 during the financial year under review.

# DIRECTORS' REPORT

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2014.

**Directors**

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

Yeo Hock Leng
Goh Seok Eng
Chong Yee Siew Sebastian
Lim Kim Liang
Soon Boon Siong
Tan Lye Huat

**Directors' interests**

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Chapter 50 (the Act), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

| Name of director and corporation in which interests are held | Holdings at beginning of the year | Holdings at end of the year |
|---|---|---|
| **The Company** | | |
| **Yeo Hock Leng** | | |
| - ordinary shares | | |
| - interests held | 25,781,496 | 27,942,496 |
| **Goh Seok Eng** | | |
| - ordinary shares | | |
| - interests held | 18,676,084 | 19,056,084 |
| **Chong Yee Siew Sebastian** | | |
| - ordinary shares | | |
| - interests held | 100,000 | 100,000 |

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

There were no changes in any of the above mentioned interests in the Company between the end of the financial year and 21 January 2015.

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

Except for salaries, bonuses and fees and those benefits that are disclosed in note 26 to the financial statements, since the end of the last financial year, no director 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 he is a member, or with a company in which he has a substantial financial interests.

**Share options**

During the financial year, there were:

(a) no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries; and

(b) no shares issued by virtue of any exercise of option to take up unissued shares of the Company or its subsidiaries.

As at the end of the financial year, there were no unissued shares of the Company or its subsidiaries under options.

**Audit and Risk Committee**

The members of the Audit and Risk Committee (ARC) during the year and at the date of this report are:

- Tan Lye Huat (Chairman), non-executive director
- Chong Yee Siew Sebastian, non-executive director
- Soon Boon Siong, non-executive director

The Audit and Risk Committee performs the functions specified in Section 201B of the Act, the SGX Listing Manual and the Code of Corporate Governance.

The Audit and Risk Committee has held four meetings since the last directors' report. In performing its functions, the Audit and Risk Committee met with the Company's external and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit and Risk Committee also reviewed the following:

- assistance provided by the Company's officers to the internal and external auditors;

- half-yearly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and

- interested person transactions (as defined in Chapter 9 of the SGX Listing Manual).

The Audit and Risk Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit and Risk Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit and Risk Committee has recommended to the Board that the independent auditor, BDO LLP, be nominated for appointment at the forthcoming Annual General Meeting of the Company.

In appointing the auditors for the Company and its subsidiaries, the Company has complied with Rules 712 and 715 of the SGX Listing Manual.

**Auditors**

The retiring auditors, KPMG LLP, will not be seeking re-appointment. The independent auditor, BDO LLP, has expressed its willingness to accept appointment.

On behalf of the Board of Directors

**Yeo Hock Leng**
Director

**Goh Seok Eng**
Director

26 March 2015

# STATEMENT BY DIRECTORS

In our opinion:

(a) the financial statements set out on pages 39 to 83 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 2014 and the results, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

(b) 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.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors

**Yeo Hock Leng**
Director

**Goh Seok Eng**
Director

26 March 2015

# INDEPENDENT AUDITORS' REPORT

Members of the Company
Dynamic Colours Limited

**Report on the financial statements**

We have audited the accompanying financial statements of Dynamic Colours Limited (the Company) and its subsidiaries (the Group), which comprise the statements of financial position of the Group and the Company as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 39 to 83.

***Management's responsibility for the financial statements***

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

***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 about 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 auditor's judgement, 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 of financial statements that give a true and fair view 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.

***Opinion***

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014 and the results, changes in equity and cash flows of the Group for the year ended on that date.

**Report on other legal and regulatory requirements**

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

**KPMG LLP**
Public Accountants and
Chartered Accountants

**Singapore**
26 March 2015

# STATEMENTS OF FINANCIAL POSITION

As at 31 December 2014

| | Note | Group 2014 US$ | Group 2013 US$ | Company 2014 US$ | Company 2013 US$ |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 4 | 17,756,952 | 15,488,657 | – | – |
| Lease prepayments | 5 | 304,402 | 313,739 | – | – |
| Intangible assets | 6 | 19,565 | 27,487 | – | – |
| Subsidiaries | 7 | – | – | 9,630,003 | 9,630,003 |
| | | 18,080,919 | 15,829,883 | 9,630,003 | 9,630,003 |
| **Current assets** | | | | | |
| Inventories | 9 | 7,122,501 | 9,700,310 | – | 965,222 |
| Trade and other receivables | 10 | 11,622,378 | 15,249,060 | 19,756,077 | 23,413,345 |
| Prepayments | | 1,528,810 | 839,567 | 3,573 | 2,616 |
| Cash and cash equivalents | 11 | 9,355,009 | 11,669,215 | 519,725 | 949,857 |
| | | 29,628,698 | 37,458,152 | 20,279,375 | 25,331,040 |
| **Total assets** | | 47,709,617 | 53,288,035 | 29,909,378 | 34,961,043 |
| **Shareholders' equity** | | | | | |
| Share capital | 12 | 18,822,247 | 18,822,247 | 18,822,247 | 18,822,247 |
| Reserves | 13 | 3,252,318 | 3,274,531 | 151,827 | 151,827 |
| Retained earnings | | 9,142,159 | 10,222,797 | 2,639,642 | 4,774,267 |
| **Equity attributable to owners of the Company** | | 31,216,724 | 32,319,575 | 21,613,716 | 23,748,341 |
| **Non-controlling interests** | 8 | 129,714 | 121,586 | – | – |
| **Total equity** | | 31,346,438 | 32,441,161 | 21,613,716 | 23,748,341 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 14 | 600,617 | 505,737 | – | – |
| **Current liabilities** | | | | | |
| Trade and other payables | 15 | 10,669,829 | 16,420,162 | 6,284,668 | 10,212,702 |
| Interest bearing financial liabilities | 16 | 4,837,763 | 3,887,612 | 2,000,000 | 1,000,000 |
| Financial derivative liabilities | 17 | 88,413 | – | 10,994 | – |
| Current tax payable | | 166,557 | 33,363 | – | – |
| | | 15,762,562 | 20,341,137 | 8,295,662 | 11,212,702 |
| **Total liabilities** | | 16,363,179 | 20,846,874 | 8,295,662 | 11,212,702 |
| **Total equity and liabilities** | | 47,709,617 | 53,288,035 | 29,909,378 | 34,961,043 |

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

| | Note | Group 2014 US$ | Group 2013 US$ |
|---|---|---|---|
| Revenue | 18 | 66,692,220 | 69,390,388 |
| Cost of sales | | (60,516,340) | (62,844,155) |
| **Gross profit** | | 6,175,880 | 6,546,233 |
| Other income | | 485,039 | 642,912 |
| Distribution expenses | | (1,079,130) | (1,309,973) |
| Administrative expenses | | (2,678,378) | (2,843,336) |
| Other operating expenses | | (6,521) | (347,925) |
| **Results from operating activities** | | 2,896,890 | 2,687,911 |
| Finance income | | 154,793 | 128,411 |
| Finance costs | | (344,923) | (155,494) |
| **Net finance costs** | 19 | (190,130) | (27,083) |
| **Profit before income tax** | | 2,706,760 | 2,660,828 |
| Income tax expense | 20 | (423,756) | (361,159) |
| **Profit for the year** | 21 | 2,283,004 | 2,299,669 |
| **Attributable to:** | | | |
| Owners of the Company | | 2,274,876 | 2,278,083 |
| Non-controlling interests | | 8,128 | 21,586 |
| **Profit for the year** | | 2,283,004 | 2,299,669 |
| **Earnings per share** | | | |
| Basic and diluted earnings per share (cents) | 22 | 1.08 | 1.09 |
| Profit for the year | | 2,283,004 | 2,299,669 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising from translation of foreign operations | | (22,213) | 275,701 |
| *Items that will not be reclassified to profit or loss:* | | | |
| Reclassification adjustment of foreign currency translation reserve to profit or loss arising from liquidation of a subsidiary | | – | 136,438 |
| **Total other comprehensive income for the year, net of income tax** | | (22,213) | 412,139 |
| **Total comprehensive income for the year** | | 2,260,791 | 2,711,808 |
| **Attributable to:** | | | |
| Owners of the Company | | 2,252,663 | 2,690,222 |
| Non-controlling interests | | 8,128 | 21,586 |
| **Total comprehensive income for the year** | | 2,260,791 | 2,711,808 |

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

| | Note | Share capital US$ | Currency translation reserve US$ | Statutory reserve US$ | Share-based payment reserve US$ | Retained earnings US$ | Total equity attributable to owners of the Company US$ | Non-controlling interests US$ | Total equity US$ |
|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | |
| At 1 January 2013 | | 18,822,247 | 1,030,474 | 1,680,091 | 151,827 | 10,508,467 | 32,193,106 | – | 32,193,106 |
| Profit for the year | | – | – | – | – | 2,278,083 | 2,278,083 | 21,586 | 2,299,669 |
| ***Other comprehensive income*** | | | | | | | | | |
| Exchange differences arising from translation of foreign operations | | – | 275,701 | – | – | – | 275,701 | – | 275,701 |
| Reclassification adjustment of foreign currency translation reserve to profit or loss arising from liquidation of a subsidiary | | – | 136,438 | – | – | – | 136,438 | – | 136,438 |
| **Total comprehensive income for the year** | | – | 412,139 | – | – | 2,278,083 | 2,690,222 | 21,586 | 2,711,808 |
| ***Transactions with owners*** | | | | | | | | | |
| Capital contribution from non-controlling interests | | – | – | – | – | – | – | 100,000 | 100,000 |
| Dividends paid | 12 | – | – | – | – | (2,563,753) | (2,563,753) | – | (2,563,753) |
| **Total transactions with owners** | | – | – | – | – | (2,563,753) | (2,563,753) | 100,000 | (2,463,753) |
| At 31 December 2013 | | 18,822,247 | 1,442,613 | 1,680,091 | 151,827 | 10,222,797 | 32,319,575 | 121,586 | 32,441,161 |

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

| | Note | Share capital US$ | Currency translation reserve US$ | Statutory reserve US$ | Share-based payment reserve US$ | Retained earnings US$ | Total equity attributable to owners of the Company US$ | Non-controlling interests US$ | Total equity US$ |
|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | |
| At 1 January 2014 | | 18,822,247 | 1,442,613 | 1,680,091 | 151,827 | 10,222,797 | 32,319,575 | 121,586 | 32,441,161 |
| Profit for the year | | – | – | – | – | 2,274,876 | 2,274,876 | 8,128 | 2,283,004 |
| ***Other comprehensive income*** | | | | | | | | | |
| Exchange differences arising from translation of foreign operations | | – | (22,213) | – | – | – | (22,213) | – | (22,213) |
| **Total comprehensive income for the year** | | – | (22,213) | – | – | 2,274,876 | 2,252,663 | 8,128 | 2,260,791 |
| ***Transactions with owners*** | | | | | | | | | |
| Capital contribution from non-controlling interests | | – | – | – | – | – | – | – | – |
| Dividends paid | 12 | – | – | – | – | (3,355,514) | (3,355,514) | – | (3,355,514) |
| ***Total transactions with owners*** | | – | – | – | – | (3,355,514) | (3,355,514) | – | (3,355,514) |
| At 31 December 2014 | | 18,822,247 | 1,420,400 | 1,680,091 | 151,827 | 9,142,159 | 31,216,724 | 129,714 | 31,346,438 |

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

| | Note | Group 2014 US$ | Group 2013 US$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | 2,283,004 | 2,299,669 |
| Adjustments for: | | | |
| Reversal of doubtful debts | | – | (320,000) |
| Allowance for inventory obsolescence | | 43,307 | 127,673 |
| Depreciation of property, plant and equipment | 4 | 1,361,384 | 1,218,575 |
| Amortisation of lease prepayments | 5 | 8,835 | 8,794 |
| Amortisation of intangible assets | 6 | 7,922 | 10,844 |
| Loss on liquidation of a subsidiary | | – | 254,256 |
| Income tax expense | | 423,756 | 361,159 |
| Interest expense | 19 | 183,481 | 155,494 |
| Interest income | 19 | (154,793) | (80,999) |
| Loss on disposal of property, plant and equipment | | 5,043 | 20,529 |
| Property, plant and equipment written off | | – | 80,020 |
| Intangible asset written off | | – | 25 |
| Net change in fair value of forward exchange contracts | | 88,413 | – |
| | | 4,250,352 | 4,136,039 |
| Changes in working capital: | | | |
| Inventories | | 2,534,502 | (2,180,361) |
| Trade and other receivables | | 3,626,682 | 1,047,498 |
| Prepayments | | (689,243) | (802,296) |
| Trade and other payables | | (4,714,964) | 2,723,983 |
| Deposit pledged | | (31,419) | (1,637) |
| Cash generated from operations | | 4,975,910 | 4,923,226 |
| Income tax paid | | (195,682) | (558,317) |
| **Net cash from operating activities** | | 4,780,228 | 4,364,909 |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | | (3,785,684) | (2,169,965) |
| Interest received | | 154,793 | 80,999 |
| Proceeds from disposal of property, plant and equipment | | 143,864 | 113,182 |
| **Net cash used in investing activities** | | (3,487,027) | (1,975,784) |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid | 12 | (3,355,514) | (2,563,753) |
| Interest paid | | (183,481) | (155,494) |
| Proceeds from short-term loans | | 5,197,379 | 10,501,158 |
| Repayment of short-term loans | | (4,247,228) | (10,404,939) |
| Proceed from trust receipts | | 31,207,796 | 25,989,795 |
| Repayment of trust receipts | | (32,243,165) | (24,329,241) |
| Capital contribution from non-controlling interests | | – | 100,000 |
| **Net cash used in financing activities** | | (3,624,213) | (862,474) |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | (2,331,012) | 1,526,651 |
| Cash and cash equivalents at 1 January | | 11,626,702 | 10,048,083 |
| Effect of exchange rate fluctuations on cash held | | (14,613) | 51,968 |
| **Cash and cash equivalents at 31 December** | 11 | 9,281,077 | 11,626,702 |

The accompanying notes form an integral part of these financial statements.

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 26 March 2015.

## 1. Domicile and activities

Dynamic Colours Limited (the Company) is incorporated in the Republic of Singapore. The address of the Company's registered office is 55A, Yishun Industrial Park A, Singapore 768729.

The financial statements of the Group as at and for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the Group and individually as Group entities).

The Company is primarily involved in investment holding and trading in colour pigments. The subsidiaries are primarily involved in the activities set out in note 7 to the financial statements.

## 2. Basis of preparation

### 2.1 Statement of compliance

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (FRS).

### 2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described in the notes below.

### 2.3 Functional and presentation currency

These financial statements are presented in United States (US) dollars, which is the Company's functional currency.

### 2.4 Use of estimates and judgements

The preparation of financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in note 27.

### 2.5 Changes in accounting policies

***Subsidiaries***

As a result of FRS 110 *Consolidated Financial Statements*, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates it investees. FRS 110 introduces a new control model that focuses on whether the Group has power over an investees, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of FRS 110, the Group reassessed the control conclusion for its investees at 1 January 2014. The adoption of FRS110 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

**2. Basis of preparation (Cont'd)**

**2.5 Changes in accounting policies (Cont'd)**

***Disclosure of interests in other entities***

From 1 January 2014, as a result of FRS 112 *Disclosure of Interests in Other Entities*, the Group has expanded its disclosure about its interests in subsidiaries and non-controlling interests (NCI) (see notes 7 and 8).

***Offsetting of financial assets and financial liabilities***

Under the Amendments to FRS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*, to qualify for offsetting, the right to set off a financial asset and a financial liability must not be contingent on a future event and must be enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The adoption of the amendments to FRS 32 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, except as explained in note 2.5, which addresses changes in accounting policies.

**3.1 Basis of consolidation**

***Business combinations***

Business combinations are accounted for using the acquisition method in accordance with FRS 103 Business Combination as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any NCI in the acquire; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree,

over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment.

When the excess in negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date and included in the consideration transferred. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

## 3. Significant accounting policies (Cont'd)

### 3.1 Basis of consolidation (Cont'd)

***Business combinations (Cont'd)***

When share-based payment awards (replacement awards) are exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

NCI that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the NCI's proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the acquisition date. The measurement basis taken is elected on a transaction-by-transaction basis. All other NCI are measured at acquisition- date fair value, unless another measurement basis is required by FRSs.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss. Adjustments to NCI arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

***Subsidiaries***

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the NCI in a subsidiary are allocated to the NCI even if doing so causes the NCI to have a deficit balance.

***Loss of control***

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any NCI and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that the control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

***Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

***Accounting for subsidiaries***

Investments in subsidiaries are stated in the Company's statement of financial position at cost less accumulated impairment losses.

**3. Significant accounting policies (Cont'd)**

**3.2 Foreign currency**

***Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

***Foreign operations***

The assets and liabilities of foreign operations, excluding goodwill and fair value adjustments arising on acquisition, are translated to US dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to US dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income (OCI), and presented in the currency translation reserve in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the NCI. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to NCI.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation are recognised in OCI, and are presented in the translation reserve in equity.

**3.3 Financial instruments**

***Non-derivative financial assets***

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group's non-derivative financial assets comprise loans and receivables.

**3. Significant accounting policies (Cont'd)**

**3.3 Financial instruments (Cont'd)**

***Loans and receivables***

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables (excluding advances to suppliers).

***Cash and cash equivalent***

Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. In the statement of cash flows, pledged deposits are excluded whilst bank overdrafts that are repayable on demand and that from an integral part of the Group's cash management are included in cash and cash equivalents.

***Non-derivative financial liabilities***

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise interest-bearing financial liabilities, and trade and other payables.

***Share capital***

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

***Derivative financial instruments***

The Group holds derivative financial instruments to hedge its foreign currency risk exposure, when necessary and hedge accounting is not adopted.

Derivatives are recognised initially at fair value; any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit or loss.

**3. Significant accounting policies (Cont'd)**

**3.3 Financial instruments (Cont'd)**

***Intra-group financial guarantees***

Financial guarantees are financial instruments issued by the Company that requires the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are recognised initially at fair value and are classified as financial liabilities. Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised if they were accounted for as contingent liabilities. When financial guarantees are terminated before their original expiry date, the carrying amount of the financial guarantees is transferred to profit or loss.

**3.4 Property, plant and equipment**

***Recognition and measurement***

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use; and
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

***Subsequent costs***

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

**3. Significant accounting policies (Cont'd)**

**3.4 Property, plant and equipment (Cont'd)**

***Depreciation***

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, unless it is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Assets under construction are not depreciated.

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative years are as follows:

- Leasehold factory buildings — lease period ranging from 15 to 60 years
- Plant and machinery — 3 to 15 years
- Motor vehicles — 5 years
- Furniture, fittings and equipment — 5 to 10 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

**3.5 Lease prepayments**

Lease prepayments for land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to profit or loss on a straight-line basis over the lease term.

**3.6 Intangible assets**

Intangible assets consist of computer software that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

***Subsequent expenditure***

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

***Amortisation***

Amortisation is calculated based on the cost of the asset, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives for the current and comparative years are as follows:

- Computer software — 3 to 5 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

**3. Significant accounting policies (Cont'd)**

**3.7 Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**3.8 Impairment**

***Non-derivative financial assets***

A financial asset not carried at fair value through profit or loss, is assessed at the end of each reporting period to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will enter bankruptcy, adverse changes in payment status of borrowers in the group, or economic conditions that correlate with defaults.

***Loans and receivables***

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

**3. Significant accounting policies (Cont'd)**

**3.8 Impairment (Cont'd)**

***Non-financial assets***

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**3.9 Employee benefits**

***Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

***Short-term employee benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**3. Significant accounting policies (Cont'd)**

**3.10 Revenue**

***Sale of goods***

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement.

***Rental income***

Rental income from subleased property is recognised in other income.

**3.11 Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**3.12 Finance income and finance costs**

Finance income comprises interest income on bank deposits that is recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings that are recognised in profit or loss.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

**3. Significant accounting policies (Cont'd)**

**3.13 Tax**

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

**3.14 Earnings per share**

The Group presents basic earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

**3. Significant accounting policies (Cont'd)**

**3.15 Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Managing Director (the chief operating decision maker) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets.

**3.16 New standards and interpretations not adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. Those which may be relevant to the Group and the Company in future financial periods, and which the Group does not plan to early adopt, are set out below.

- FRS 115 *Revenue from Contracts with Customers* will replace FRS 18 *Revenue*, FRS 11 *Construction Contracts and related interpretations*. The standard establishes the principle for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled to in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed (e.g. service revenue and contract modifications) and improved guidance for multi-element arrangements.

  FRS 115 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after 1 January 2017.

- FRS 109 *Financial Instruments* replaces FRS 39 *Financial Instruments: Recognition and Measurement*. The standard sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

  FRS 109 *Financial Instruments* is effective for annual periods beginning on or after 1 January 2018.

FRS 115 and FRS 109 were issued on 19 November 2014 and 11 December 2014 respectively. The Group is currently evaluating the impact of the implementation of these standards.

## 4. Property, plant and equipment

| | Leasehold factory buildings US$ | Plant and machinery US$ | Motor vehicles US$ | Furniture, fittings and equipment US$ | Assets under construction US$ | Total US$ |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **Cost** | | | | | | |
| At 1 January 2013 | 11,880,411 | 5,246,803 | 491,329 | 1,547,903 | 3,535,299 | 22,701,745 |
| Additions | 6,053 | 883,634 | 19,615 | 152,921 | 1,107,742 | 2,169,965 |
| Disposals/Write-off | – | (1,276,389) | (46,380) | (59,870) | (88,248) | (1,470,887) |
| Transfer | 912,619 | 3,169,580 | – | – | (4,082,199) | – |
| Effect of movement in exchange rates | 73,334 | 16,552 | 2,188 | 14,576 | – | 106,650 |
| At 31 December 2013 | 12,872,417 | 8,040,180 | 466,752 | 1,655,530 | 472,594 | 23,507,473 |
| At 1 January 2014 | 12,872,417 | 8,040,180 | 466,752 | 1,655,530 | 472,594 | 23,507,473 |
| Additions | 6,648 | 3,180,195 | 27,970 | 53,780 | 517,091 | 3,785,684 |
| Disposals/Write-off | – | (174,169) | (15,016) | (53,905) | – | (243,090) |
| Transfer | 53,425 | 454,074 | – | 16,766 | (524,265) | – |
| Effect of movement in exchange rates | (8,827) | (1,873) | (262) | (1,862) | – | (12,824) |
| At 31 December 2014 | 12,923,663 | 11,498,407 | 479,444 | 1,670,309 | 465,420 | 27,037,243 |
| **Accumulated depreciation and impairment losses** | | | | | | |
| At 1 January 2013 | 2,782,132 | 3,608,085 | 451,517 | 1,165,625 | – | 8,007,359 |
| Depreciation for the year | 548,926 | 533,231 | 48,583 | 87,835 | – | 1,218,575 |
| Disposals/Write-off | – | (1,170,624) | (41,742) | (44,790) | – | (1,257,156) |
| Effect of movement in exchange rates | 21,442 | 14,212 | 1,449 | 12,935 | – | 50,038 |
| At 31 December 2013 | 3,352,500 | 2,984,904 | 459,807 | 1,221,605 | – | 8,018,816 |
| At 1 January 2014 | 3,352,500 | 2,984,904 | 459,807 | 1,221,605 | – | 8,018,816 |
| Depreciation for the year | 582,144 | 701,070 | 28,552 | 49,618 | – | 1,361,384 |
| Disposals/Write-off | – | (30,456) | (13,514) | (50,213) | – | (94,183) |
| Effect of movement in exchange rates | (2,305) | (1,597) | (161) | (1,663) | – | (5,726) |
| At 31 December 2014 | 3,932,339 | 3,653,921 | 474,684 | 1,219,347 | – | 9,280,291 |
| **Carrying amounts** | | | | | | |
| At 1 January 2013 | 9,098,279 | 1,638,718 | 39,812 | 382,278 | 3,535,299 | 14,694,386 |
| At 31 December 2013 | 9,519,917 | 5,055,276 | 6,945 | 433,925 | 472,594 | 15,488,657 |
| At 31 December 2014 | 8,991,324 | 7,844,486 | 4,760 | 450,962 | 465,420 | 17,756,952 |

***Security***

At 31 December 2014, leasehold factory buildings of the Group with carrying amounts of US$597,000 (2013: US$640,000) are pledged as security in relation to a revolving credit facility from a bank (note 16).

**4. Property, plant and equipment (Cont'd)**

| | Motor vehicles US$ | Furniture, fittings and equipment US$ | Total US$ |
|---|---|---|---|
| **Company** | | | |
| **Cost** | | | |
| At 1 January 2013, 31 December 2013 and 31 December 2014 | 35,342 | 8,927 | 44,269 |
| **Accumulated depreciation** | | | |
| At 1 January 2013 | 28,274 | 8,927 | 37,201 |
| Depreciation for the year | 7,068 | – | 7,068 |
| At 31 December 2013 | 35,342 | 8,927 | 44,269 |
| At 1 January 2014 | 35,342 | 8,927 | 44,269 |
| Depreciation for the year | – | – | – |
| At 31 December 2014 | 35,342 | 8,927 | 44,269 |
| **Carrying amounts** | | | |
| At 1 January 2013 | 7,068 | – | 7,068 |
| At 31 December 2013 | – | – | – |
| At 31 December 2014 | – | – | – |

**5. Lease prepayments**

| | Group US$ |
|---|---|
| **Cost** | |
| At 1 January 2013 | 436,167 |
| Effect of movement in exchange rates | 6,419 |
| At 31 December 2013 | 442,586 |
| At 1 January 2014 | 442,586 |
| Effect of movement in exchange rates | (773) |
| At 31 December 2014 | 441,813 |
| **Accumulated amortisation** | |
| At 1 January 2013 | 117,713 |
| Amortisation for the year | 8,794 |
| Effect of movement in exchange rates | 2,340 |
| At 31 December 2013 | 128,847 |

**5. Lease prepayments (Cont'd)**

| | Group US$ |
|---|---|
| At 1 January 2014 | 128,847 |
| Amortisation for the year | 8,835 |
| Effect of movement in exchange rates | (271) |
| At 31 December 2014 | 137,411 |
| | |
| **Carrying amounts** | |
| At 1 January 2013 | 318,454 |
| At 31 December 2013 | 313,739 |
| At 31 December 2014 | 304,402 |

Lease prepayments represent land use rights held by subsidiaries in the People's Republic of China (PRC). At 31 December 2014, the remaining period of the land use rights is between 38 to 40 years (2013: 39 to 41 years). None of the leases include contingent rentals.

***Security***

At 31 December 2014, land use rights of the Group with carrying amounts of US$304,000 (2013: US$314,000) are pledged as security in relation to a secure revolving credit facility from a bank (note 16).

**6. Intangible assets**

| | Computer software US$ |
|---|---|
| **Group** | |
| **Cost** | |
| At 1 January 2013 | 158,667 |
| Disposals | (1,268) |
| Effect of movement in exchange rates | 435 |
| At 31 December 2013 | 157,834 |
| | |
| At 1 January 2014 | 157,834 |
| Disposals | – |
| Effect of movement in exchange rates | (52) |
| At 31 December 2014 | 157,782 |

6. **Intangible assets (Cont'd)**

| | Computer software US$ |
|---|---|
| **Accumulated amortisation** | |
| At 1 January 2013 | 120,312 |
| Disposal | (1,243) |
| Amortisation for the year | 10,844 |
| Effect of movement in exchange rates | 434 |
| At 31 December 2013 | 130,347 |
| At 1 January 2014 | 130,347 |
| Disposal | – |
| Amortisation for the year | 7,922 |
| Effect of movement in exchange rates | (52) |
| At 31 December 2014 | 138,217 |
| **Carrying amounts** | |
| At 1 January 2013 | 38,355 |
| At 31 December 2013 | 27,487 |
| At 31 December 2014 | 19,565 |

7. **Subsidiaries**

| | Company 2014 US$ | Company 2013 US$ |
|---|---|---|
| Equity investments in subsidiaries, at cost | 12,184,111 | 12,784,111 |
| Addition during the year | – | 400,000 |
| Liquidation of a subsidiary | – | (1,000,000) |
| | 12,184,111 | 12,184,111 |
| Impairment losses | (2,554,108) | (2,554,108) |
| | 9,630,003 | 9,630,003 |

During the year ended 31 December 2013, the Company invested US$400,000 in DCQ Plastic Industry Co., Ltd.

**7. Subsidiaries (Cont'd)**

Details of the subsidiaries are as follows:

| Name of subsidiary | Principal place of business | Country of incorporation | Ownership interest 2014 % | Ownership interest 2013 % |
|---|---|---|---|---|
| [1] S.L. Packaging Industries Pte. Ltd. | Manufacture and sale of polyethylene packaging materials | Singapore | 100 | 100 |
| [2] Suzhou Huiye Chemical & Light Industry Co., Ltd. # | Manufacture and sale of compounded resins and provision of compounding services | People's Republic of China | 100 | 100 |
| [2] Suzhou Huiye Plastic Industry Co., Ltd. | Manufacture and sale of compounded resins and provision of compounding services | People's Republic of China | 100 | 100 |
| [3] Huiye (Vietnam) Plastic Co., Ltd. # | Manufacture and sale of compounded resins and provision of compounding services | Vietnam | 100 | 100 |
| [4] Huiye Polymer (M) Sdn. Bhd. | Manufacture and sale of compounded resins, provision of compounding services and polyethylene packaging materials | Malaysia | 100 | 100 |
| [3] DCQ Plastic Industry Co., Ltd. # | Manufacture and sales of plastic molded products | Vietnam | 80 | 80 |

1 Audited by KPMG LLP Singapore.
2 Audited by KPMG Huazhen, Nanjing for consolidation purposes. The statutory auditor is Jiangsu Gong Zheng Certified Public Accountants (江苏公正会计师事务所有限公司), People's Republic of China.
3 Audited by Chuan Viet Auditing and Consulting Co., Ltd. (VIETVALUES), Vietnam.
4 Audited by Chung & Associates, Malaysia.
# These subsidiaries are not significant as defined under Listing Rule 718 of the SGX Listing Manual.

## 8. Non-controlling interests

The following subsidiary has a material NCI.

| Name | Principal place of business/ Country of Incorporation | Operating Segment | Ownership interest held by NCI | |
|---|---|---|---|---|
| | | | 2014 | 2013 |
| | | | % | % |
| DCQ Plastic Industry Co., Ltd. | Vietnam | Injection Moulding | 20 | 20 |

The following summarises the financial information of the Group's subsidiary with material NCI, based on their respective financial statements prepared in accordance with FRS, modified for fair value adjustments on acquisition and differences in the Group's accounting policies.

| | 2014 US$ | 2013 US$ |
|---|---|---|
| Revenue | 4,874,851 | 3,816,362 |
| Profit for the year | 40,642 | 107,929 |
| OCI | – | – |
| **Total comprehensive income** | 40,642 | 107,929 |
| Profit attributable to NCI | 8,128 | 21,586 |
| OCI attributable to NCI | – | – |
| **Total comprehensive income attributable to NCI** | 8,128 | 21,586 |
| Intra-group elimination | – | – |
| **Total comprehensive income attributable to NCI** | 8,128 | 21,586 |
| Non-current assets | 761,605 | 821,808 |
| Current assets | 1,463,872 | 1,842,864 |
| Non-current liabilities | – | – |
| Current liabilities | (1,574,472) | (2,054,990) |
| **Net assets** | 651,005 | 609,682 |
| **Net assets attributable to NCI** | 130,201 | 121,936 |
| Intra-group elimination | (487) | (350) |
| **Net assets attributable to NCI** | 129,714 | 121,586 |
| Cash flows from operating activities | (391,784) | 1,124,315 |
| Cash flows from investing activities | (60,863) | (887,220) |
| Cash flows from financing activities (dividends to NCI: nil) | – | 501,754 |
| Net increase (decrease) in cash and cash equivalents | (452,647) | 738,849 |

## 9. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | US$ | US$ | US$ | US$ |
| Raw materials | 5,101,514 | 8,022,908 | – | 965,222 |
| Work in progress | 427,689 | 312,564 | – | – |
| Finished goods | 1,997,285 | 1,725,518 | – | – |
| Allowance for inventory obsolescence | (403,987) | (360,680) | – | – |
| | 7,122,501 | 9,700,310 | – | 965,222 |

Raw materials consist mainly of plastic resins, colour pigments and additives.

Raw materials, finished goods and work in progress included as cost of sales amounted to US$54,104,306 (2013: US$56,809,602). The allowance for inventory obsolescence and write-down of inventories to net realisable value by the Group amounted to US$43,307 (2013: US$127,673) and US$199,419 (2013: nil) respectively, are included in cost of sales.

## 10. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | US$ | US$ | US$ | US$ |
| Trade receivables | 11,436,691 | 14,827,023 | 1,623 | 4,815 |
| Other receivables | 87,344 | 297,666 | 8,000 | – |
| Deposits | 93,611 | 115,422 | – | – |
| Amounts due from subsidiaries | | | | |
| - trade | – | – | 18,244,706 | 21,806,148 |
| - non-trade | – | – | 1,501,748 | 1,602,382 |
| Loans and receivables | 11,617,646 | 15,240,111 | 19,756,077 | 23,413,345 |
| Advances to suppliers | 4,732 | 8,949 | – | – |
| | 11,622,378 | 15,249,060 | 19,756,077 | 23,413,345 |

The amounts due from subsidiaries are unsecured, repayable on demand and interest-free. There is no allowance for doubtful debts arising from these outstanding balances.

The Group and the Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 24.

## 11. Cash and cash equivalents

| | 2014 US$ | 2013 US$ |
|---|---|---|
| **Group** | | |
| Cash at bank and in hand | 9,281,077 | 11,092,433 |
| Fixed deposits with banks | 73,932 | 576,782 |
| Cash and cash equivalents in the statement of financial position | 9,355,009 | 11,669,215 |
| Deposits pledged | (73,932) | (42,513) |
| Cash and cash equivalents in the statement of cash flows | 9,281,077 | 11,626,702 |
| **Company** | | |
| Cash at bank and in hand | 519,725 | 949,857 |

The Group and the Company's exposure to interest rate risk and a sensitivity analysis for financial assets and financial liabilities are disclosed in note 24.

The deposits pledged represents the bank balance of a subsidiary in Malaysia that has been pledged to a bank for guarantee facilities extended to public utilities service provider and customs.

## 12. Share capital

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | No. of shares | S$ | US$ | No. of shares | S$ | US$ |
| **Company** | | | | | | |
| **Ordinary shares:** | | | | | | |
| At 1 January and 31 December | 209,971,310 | 29,477,218 | 18,822,247 | 209,971,310 | 29,477,218 | 18,822,247 |

All shares rank equally with regard to the Company's residual assets. All issued shares are fully paid, with no par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

***Capital management***

The Board's policy is to maintain a strong capital base so as to maintain business confidence to sustain future development of the business. The Group defines "capital" as share capital and retained earnings of the Group. The Board of Directors monitors the return on capital, which the Group defines as profit for the year divided by total shareholders' equity.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 12. Share capital (Cont'd)

### *Dividends*

The following exempt (one-tier) dividends were declared and paid by the Group and Company:

| | Group and Company | |
|---|---|---|
| | 2014 | 2013 |
| | US$ | US$ |
| **For the year ended 31 December** | | |
| Final dividend of 2.0 Singapore cents (2013: 1.5 Singapore cents) # per qualifying ordinary share | 3,355,514 | 2,563,753 |

\# US Dollar equivalent at date of payment.

After the respective reporting dates, the following exempt (one-tier) dividends were proposed by the directors. These exempt (one-tier) dividends have not been provided for.

| | Group and Company | |
|---|---|---|
| | 2014 | 2013 |
| | US$ | US$ |
| **For the year ended 31 December** | | |
| Final dividend of 1.50 Singapore cents (2013: 2.0 Singapore cents)^ per qualifying ordinary share | 2,383,510 | 3,328,913 |

^ US Dollar equivalent at reporting date.

## 13. Reserves

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | US$ | US$ | US$ | US$ |
| Currency translation reserve | 1,420,400 | 1,442,613 | – | – |
| Statutory reserve | 1,680,091 | 1,680,091 | – | – |
| Share-based payment reserve | 151,827 | 151,827 | 151,827 | 151,827 |
| | 3,252,318 | 3,274,531 | 151,827 | 151,827 |

### *Currency translation reserve*

The currency translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations.

**13. Reserves (Cont'd)**

***Statutory reserve***

The wholly-owned subsidiaries in the People's Republic of China are required to appropriate 10% of the profit after tax in accordance with PRC GAAP for each year to the statutory reserve.

The profit after tax must be set-off against any accumulated losses sustained by the subsidiaries in prior years, before allocation is made to the statutory reserve. Appropriation to the statutory reserve must be made before distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. No appropriation is required in the financial year ended 31 December 2014 as the statutory reserves of the subsidiaries in China have exceeded 50% of their registered capital. This statutory reserve is not distributable in the form of cash dividends. The statutory reserve may be used to set off losses or be converted into paid-in capital.

***Share-based payment reserve***

The share-based payment reserve comprises the cumulative value of employee services received for the issue of shares under the Employee Share Reward Scheme (ESRS).

The Company has on 25 September 2007 implemented ESRS jointly with ESRS Grantors. An aggregate of 5,236,970 shares of the Company had been transferred by the ESRS Grantors to the Trustee, Stellar Woods Limited for distribution to eligible employees.

The ESRS which was administered by the RC expired in January 2011. As at the expiry date, a total number of 2,259,180 Reward Shares were distributed to the employees.

**14. Deferred tax liabilities**

***Unrecognised deferred tax assets***

Deferred tax assets have not been recognised in respect of the following items:

| | Group | |
|---|---|---|
| | **2014** | **2013** |
| | **US$** | **US$** |
| Tax losses and capital allowances | 702,085 | 341,196 |

The tax losses and capital allowances are subject to agreement by the tax authorities and compliance with tax regulations in the respective countries in which certain subsidiaries operate. The tax losses and capital allowances do not expire under current tax regulation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits there from.

## 14. Deferred tax liabilities (Cont'd)

***Recognised deferred tax assets and liabilities***

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2014<br>US$ | 2013<br>US$ | 2014<br>US$ | 2013<br>US$ |
| **Group** | | | | |
| Property, plant and equipment | (38,189) | (41,452) | 671,610 | 480,354 |
| Inventories | (49,855) | – | – | – |
| Intangible assets | (14,008) | (23,814) | – | – |
| Distributable profit from PRC subsidiaries | – | – | 49,734 | 102,090 |
| Others | (18,675) | (11,441) | – | – |
| Deferred tax (assets)/liabilities | (120,727) | (76,707) | 721,344 | 582,444 |
| Set off of tax | 120,727 | 76,707 | (120,727) | (76,707) |
| Net deferred tax liabilities | – | – | 600,617 | 505,737 |

***Deferred tax effect of movement in temporary differences during the year***

| | At 1/1/2013<br>US$ | Recognised in profit or loss (note 20)<br>US$ | At 31/12/2013<br>US$ | Recognised in profit or loss (note 20)<br>US$ | At 31/12/2014<br>US$ |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Deferred tax (assets)/liabilities** | | | | | |
| Property, plant and equipment | 340,255 | 98,647 | 438,902 | 194,519 | 633,421 |
| Inventories | – | – | – | (49,855) | (49,855) |
| Intangible assets | (17,886) | (5,928) | (23,814) | 9,806 | (14,008) |
| Distributable profit from PRC subsidiaries | 279,593 | (177,503) | 102,090 | (52,356) | 49,734 |
| Others | (11,441) | – | (11,441) | (7,234) | (18,675) |
| | 590,521 | (84,784) | 505,737 | 94,880 | 600,617 |

## 15. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2014<br>US$ | 2013<br>US$ | 2014<br>US$ | 2013<br>US$ |
| Trade payables | 1,576,960 | 2,803,638 | 12,257 | 267,843 |
| Bills payable | 2,299,940 | 5,132,789 | 902,580 | 3,648,851 |
| Trust receipts | 5,518,823 | 6,554,192 | 5,076,377 | 5,905,272 |
| Amount due to a subsidiary (non-trade) | – | – | 148 | – |
| Other payables | 545,893 | 916,189 | 59,170 | 61,123 |
| Accrued operating expenses | 728,213 | 1,013,354 | 234,136 | 329,613 |
| | 10,669,829 | 16,420,162 | 6,284,668 | 10,212,702 |

The non-trade amount due to a subsidiary is unsecured, repayable on demand and interest-free.

The Group and the Company's exposure to currency and liquidity risk related to trade and other payables are disclosed in note 24.

## 16. Interest bearing financial liabilities

| | Group 2014 US$ | Group 2013 US$ | Company 2014 US$ | Company 2013 US$ |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Secured revolving credit facilities | 1,337,763 | 2,887,612 | – | – |
| Unsecured revolving credit facilities | 3,500,000 | 1,000,000 | 2,000,000 | 1,000,000 |
| | 4,837,763 | 3,887,612 | 2,000,000 | 1,000,000 |

The secured revolving credit facilities of the Group are secured over leasehold factory buildings and land use rights held by the Group's China subsidiaries with carrying amounts of US$597,000 (2013: US$640,000) and US$304,000 (2013: US$314,000) respectively (notes 4 and 5).

For more information about the Group's exposure to interest rate, foreign currency and liquidity risks, refer to note 24.

***Terms and debt repayment schedule of interest bearing financial liabilities***

Terms and conditions of outstanding interest bearing financial liabilities are as follows:

| | Currency | Nominal fixed interest rate % | Year of maturity | 2014 Face value US$ | 2014 Carrying amount US$ | 2013 Face value US$ | 2013 Carrying amount US$ |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| Secured revolving credit facilities | US$ | 1.33% - 1.59% | 2015 | 1,337,763 | 1,337,763 | 2,887,612 | 2,887,612 |
| Unsecured revolving credit facilities | US$ | 1.4% - 1.5% | 2015 | 3,500,000 | 3,500,000 | 1,000,000 | 1,000,000 |
| | | | | 4,837,763 | 4,837,763 | 3,887,612 | 3,887,612 |
| **Company** | | | | | | | |
| Unsecured revolving credit facilities | US$ | 1.4% - 1.5% | 2015 | 2,000,000 | 2,000,000 | 1,000,000 | 1,000,000 |

## 17. Financial derivative liabilities

At 31 December 2014, the notional principal amounts of the outstanding forward foreign exchange contracts were US$1,945,000. The forward foreign exchange contracts mature within the next 12 months.

## 18. Revenue

Revenue of the Group comprises invoiced value of goods sold after allowances for goods returned and discounts.

## 19. Finance income and finance costs

| | Group | |
|---|---|---|
| | 2014 US$ | 2013 US$ |
| **Finance income:** | | |
| Interest income on bank deposits | 154,793 | 80,999 |
| Net foreign exchange gain | – | 47,412 |
| | 154,793 | 128,411 |
| **Finance costs:** | | |
| Interest expense on term loans | (67,814) | (53,847) |
| Interest expense on trust receipts | (115,667) | (101,647) |
| Net foreign exchange loss | (161,442) | – |
| | (344,923) | (155,494) |
| Net finance costs recognised in profit or loss | (190,130) | (27,083) |

## 20. Income tax expense

| | Group | |
|---|---|---|
| | 2014 US$ | 2013 US$ |
| **Current tax expense** | | |
| Current year | 261,028 | 234,463 |
| Withholding tax | 68,682 | 203,950 |
| (Over)/Under provision in respect of prior years | (834) | 7,530 |
| | 328,876 | 445,943 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 140,812 | (31,780) |
| Over provision in respect of prior years | (45,932) | (53,004) |
| | 94,880 | (84,784) |
| Income tax expense, recognised in profit or loss | 423,756 | 361,159 |

***Reconciliation of effective tax rate***

| | 2014 US$ | 2013 US$ |
|---|---|---|
| Profit before income tax | 2,706,760 | 2,660,828 |
| Income tax using Singapore tax rate of 17% (2013: PRC tax rate of 25%) | 460,149 | 665,207 |
| Effect of different tax rates in other countries | 28,861 | (238,851) |
| Non-deductible expenses | 44,773 | 90,452 |
| Tax exempt income | (34,208) | (110,911) |
| Tax incentives | (30,132) | (23,544) |
| Recognition of tax effect of previously unrecognised tax losses | (61,351) | (162,524) |
| Over provision in respect of prior years | (46,766) | (45,474) |
| Withholding tax | 68,682 | 203,950 |
| Others | (6,252) | (17,146) |
| | 423,756 | 361,159 |

## 20. Income tax expense (Cont'd)

In view of the increased contribution of polyethylene packaging segment to the Group's results, the Singapore tax rate of 17% has been used for the 2014 reconciliation of effective tax rate.

In 2013, the PRC tax rate of 25% was used in the reconciliation of the effective tax rate in view of the significant contribution of the PRC operations to the Group.

## 21. Profit for the year

The following items have been included in arriving at profit for the year:

| | Group | |
|---|---|---|
| | 2014<br>US$ | 2013<br>US$ |
| Audit fees paid: | | |
| - auditors of the Company | 118,944 | 117,718 |
| - other auditors | 10,861 | 12,869 |
| Non-audit fees paid: | | |
| - auditors of the Company | 26,050 | – |
| - other auditors | 18,993 | 6,896 |
| Allowance for inventory obsolescence | 43,307 | 127,673 |
| Write down of inventories to net realisable value | 199,419 | – |
| Amortisation of intangible assets | 7,922 | 10,844 |
| Amortisation of lease prepayments | 8,835 | 8,794 |
| Staff costs | 4,328,098 | 4,142,235 |
| Contributions to defined contribution plans, included in staff costs | 492,231 | 463,299 |
| Depreciation of property, plant and equipment | 1,361,384 | 1,218,575 |
| Loss on disposal of property, plant and equipment | 5,043 | 20,529 |
| Loss on liquidation of a subsidiary | – | 254,256 |
| Property, plant and equipment written off | – | 80,020 |
| Intangible assets written off | – | 25 |
| Operating lease expense | 120,185 | 115,392 |

## 22. Earnings per share

***Basic earnings per share***

At the reporting date, the calculation of basic earnings per share was based on the profit attributable to ordinary shareholders of US$2,274,876 (2013: US$2,278,083), and 209,971,310 (2013: 209,971,310) ordinary shares in issue during the year.

The diluted earnings per share is the same as basic earnings per share as the Company does not have any dilutive potential ordinary shares.

**23. Operating segments**

The Group has three reportable segments, as described below, which are the Group's operating segments. The operating segments offer different products and services, and are managed separately because they require different technology and marketing strategies. For each operating segment, the Group's Managing Director (the chief operating decision maker) reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's operating/reportable segments:

- *Resin compounding: Includes the manufacture and sale of compounded resins and provision of compounding services.*
- *Polyethylene packaging: Includes the manufacture and sale of polyethylene packaging materials.*
- *Injection moulding: Includes the manufacture and sale of plastic moulded products.*

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Group's Managing Director. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment transactions are insignificant.

***Information about reportable segments***

| | Resin Compounding | | Polyethylene Packaging | | Injection Moulding | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2014 US$'000 | 2013 US$'000 | 2014 US$'000 | 2013 US$'000 | 2014 US$'000 | 2013 US$'000 | 2014 US$'000 | 2013 US$'000 |
| External revenue | 39,700 | 50,302 | 22,117 | 15,334 | 4,875 | 3,754 | 66,692 | 69,390 |
| Inter-segment revenue | 3,084 | 1,812 | 36 | 58 | – | 62 | 3,120 | 1,932 |
| Segment results | 930 | 1,468 | 1,911 | 1,084 | 61 | 145 | 2,902 | 2,697 |
| Finance income | 155 | 142 | – | (13) | – | (1) | 155 | 128 |
| Finance cost | (286) | (137) | (59) | (18) | – | – | (345) | (155) |
| Reportable segment profit before income tax | 799 | 1,473 | 1,852 | 1,053 | 61 | 144 | 2,712 | 2,670 |
| **Assets and liabilities** | | | | | | | | |
| Segment assets | 25,958 | 36,996 | 19,527 | 13,627 | 2,225 | 2,665 | 47,710 | 53,288 |
| Segment liabilities | (1,220) | 10,144 | 16,009 | 8,648 | 1,574 | 2,055 | 16,363 | 20,847 |
| **Other material (non-cash items)** | | | | | | | | |
| Capital expenditure | 322 | 890 | 3,270 | 393 | 194 | 887 | 3,786 | 2,170 |
| Depreciation of property, plant and equipment | 471 | 563 | 769 | 601 | 121 | 55 | 1,361 | 1,219 |

## 23. Operating segments (Cont'd)

***Reconciliations of reportable segment revenues and profit or loss***

| | 2014<br>US$'000 | 2013<br>US$'000 |
|---|---|---|
| **Revenue** | | |
| Total revenue for reportable segments | 69,812 | 71,322 |
| Elimination of inter-segment revenue | (3,120) | (1,932) |
| Consolidated revenue | 66,692 | 69,390 |
| **Profit or loss** | | |
| Reportable segment profit before income tax | 2,712 | 2,670 |
| Elimination of inter-segment profits | (5) | (9) |
| Consolidated profit before income tax | 2,707 | 2,661 |

***Geographical segments***

The Group's three operating segments operate in four main geographical areas:

- *PRC – the operations in this area are principally the manufacture and sale of compounded resins and provision of compounding services;*
- *Singapore – the Group is headquartered and has operations in Singapore. The operations in this area are principally the manufacture and sale of polyethylene packaging materials, and investment holding;*
- *Vietnam – the operations are principally the manufacture and sale of compounded services, provision of compounding services, injection moulding and; Vietnam – the operations are principally the manufacture and sale of compounded services, provision of compounding services, injection moulding and;*
- *Malaysia – the operations are principally the manufacture and sale of compounded services, provision of compounding services, injection moulding and sale of polyethylene packaging materials.*

***Geographical information***

Certain geographical information relating to the Group is as follows:

| | Sales | | Non-current assets | |
|---|---|---|---|---|
| | 2014<br>US$'000 | 2013<br>US$'000 | 2014<br>US$'000 | 2013<br>US$'000 |
| PRC | 28,790 | 39,653 | 2,837 | 3,114 |
| Singapore | 22,108 | 16,545 | 5,127 | 5,772 |
| Malaysia | 5,709 | 5,408 | 8,930 | 5,902 |
| Vietnam | 10,085 | 7,784 | 1,187 | 1,042 |
| | 66,692 | 69,390 | 18,081 | 15,830 |

***Major customers***

Revenue from one customer of the Group's Resin Compounding segment represents approximately US$6,816,000 (2013: US$11,348,000) of the Group's total revenues.

## 24. Financial risk management

***Overview***

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

***Risk management framework***

Risk management is integral to the whole business of the Group. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit and Risk Committee (ARC) oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The ARC is assisted in its oversight role by Internal Audit (IA). IA undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the ARC.

***Credit risk***

Credit risk is the potential risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

***Loans and receivables***

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At reporting date, the Group has concentrations of credit risk in 17 (2013: 12) major customers representing 49% (2013: 52%) of total loans and receivables.

Credit evaluations are performed on all customers requiring credit over a certain amount. If the customers are independently rated, these ratings are used. Otherwise, the credit quality of customers is assessed after taking into account its financial position and past experience with the customers.

The Group has established a system of internal control to ensure that all customers are with acceptable credit history. Credit estimates and balances are monitored on an on-going basis. Cash and fixed deposits are placed with banks which are regulated and those which management believes to be financially strong.

## 24. Financial risk management (Cont'd)

***Exposure to credit risk***

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is disclosed below:

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2014 | 2013 | 2014 | 2013 |
| | | US$ | US$ | US$ | US$ |
| Trade and other receivables* | 10 | 11,617,646 | 15,240,111 | 19,756,077 | 23,413,345 |
| Cash and cash equivalents | 11 | 9,355,009 | 11,669,215 | 519,725 | 949,857 |
| | | 20,972,655 | 26,909,326 | 20,275,802 | 24,363,202 |

** Excludes advances to suppliers*

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region is disclosed below:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | US$ | US$ | US$ | US$ |
| PRC | 6,980,655 | 10,826,224 | – | – |
| Singapore | 2,021,012 | 1,957,240 | 19,756,077 | 23,413,345 |
| Malaysia | 1,167,836 | 1,283,387 | – | – |
| Vietnam | 1,448,143 | 1,173,260 | – | – |
| | 11,617,646 | 15,240,111 | 19,756,077 | 23,413,345 |

***Impairment losses***

The ageing of trade receivables at the reporting date is disclosed below:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Gross | Impairment | Gross | Impairment |
| | US$ | US$ | US$ | US$ |
| **Group** | | | | |
| Not past due | 10,252,610 | – | 12,737,465 | – |
| Past due 0 – 30 days | 934,479 | – | 1,579,058 | – |
| Past due 31 – 120 days | 249,602 | – | 510,500 | – |
| | 11,436,691 | – | 14,827,023 | – |
| **Company** | | | | |
| Not past due | 1,623 | – | 4,815 | – |
| Past due 0 – 30 days | – | – | – | – |
| Past due 31 – 120 days | – | – | – | – |
| | 1,623 | – | 4,815 | – |

## 24. Financial risk management (Cont'd)

***Impairment losses (Cont'd)***

The movement in allowance for impairment in respect of trade receivables during the year was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | US$ | US$ | US$ | US$ |
| At 1 January | – | 320,000 | – | – |
| Impairment losses reversed | – | (320,000) | – | – |
| At 31 December | – | – | – | – |

Based on the Group's monitoring of customer credit risk, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due or past due up to 120 days. These receivables are mainly arising by customers that have a good record with the Group.

***Liquidity risk***

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. In addition, the Group maintains revolving credit facilities with various banks that can be drawn down to meet short-term financing needs.

***Intra-group financial guarantees***

The Group's policy is to provide financial guarantees only to wholly owned subsidiaries. The Company has provided financial guarantees to banks in respect of banking facilities granted to a subsidiary. At the reporting date, the Company does not consider it probable that a claim will be made against the Company under the intra-group financial guarantees.

**24. Financial risk management (Cont'd)**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

| | Note | Carrying amount US$ | Contractual cash flows US$ | Within 1 year or on demand US$ | Within 1 to 5 years US$ |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **31 December 2014** | | | | | |
| Trade and other payables | 15 | 10,669,829 | 10,685,620 | 10,685,620 | – |
| Interest bearing financial liabilities | | | | | |
| - Revolving credit facilities | 16 | 4,837,763 | 4,842,792 | 4,842,792 | – |
| | | 15,507,592 | 15,528,412 | 15,528,412 | |
| Fair value of forward exchange contracts (gross settled) | 17 | 88,413 | | | |
| - Inflow | | | (1,856,247) | (1,856,247) | – |
| - Outflow | | | 1,944,630 | 1,944,630 | – |
| | | 15,596,005 | 15,616,825 | 15,616,825 | – |
| **31 December 2013** | | | | | |
| Trade and other payables | 15 | 16,420,162 | 16,430,971 | 16,430,971 | – |
| Interest bearing financial liabilities | | | | | |
| - Revolving credit facilities | 16 | 3,887,612 | 3,897,223 | 3,897,223 | – |
| | | 20,307,774 | 20,328,194 | 20,328,194 | – |

## 24. Financial risk management (Cont'd)

| | Note | Carrying amount US$ | Contractual cash flows US$ | Within 1 year or on demand US$ | Within 1 to 5 years US$ |
|---|---|---|---|---|---|
| **Company** | | | | | |
| **31 December 2014** | | | | | |
| Trade and other payables | 15 | 6,284,668 | 6,298,600 | 6,298,600 | – |
| Interest bearing financial liabilities | | | | | |
| - Revolving credit facilities | 16 | 2,000,000 | 2,001,243 | 2,001,243 | – |
| Recognised financial liabilities | | 8,284,668 | 8,299,843 | 8,299,843 | – |
| Intra-group financial guarantees | | 8,800,000 | 8,800,000 | 8,800,000 | – |
| | | 17,084,668 | 17,099,843 | 17,099,843 | |
| Fair value of forward exchange contracts (gross settled) | 17 | 10,994 | | | |
| - Inflow | | | (639,006) | (639,006) | – |
| - Outflow | | | 650,000 | 650,000 | – |
| | | 17,095,662 | 17,110,837 | 17,110,837 | – |
| **31 December 2013** | | | | | |
| Trade and other payables | 15 | 10,212,702 | 10,222,011 | 10,222,011 | – |
| Interest bearing financial liabilities | | | | | |
| - Revolving credit facilities | 16 | 1,000,000 | 1,003,838 | 1,003,838 | – |
| Recognised financial liabilities | | 11,212,702 | 11,225,849 | 11,225,849 | – |
| Intra-group financial guarantees | | 5,070,789 | 5,070,789 | 5,070,789 | – |
| | | 16,283,491 | 16,296,638 | 16,296,638 | – |

The maturity analyses show the contractual undiscounted cash flows of the Group and Company's financial liabilities on the basis of their earliest possible contractual maturity. Except for cash flow arising from the intra-group financial guarantee, it is not expected that the cash flows included in the maturity analysis above could occur significantly earlier, or at significantly different amounts.

***Market risk***

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

## 24. Financial risk management (Cont'd)

***Currency risk***

The Group is exposed to currency risk on sales and purchases and expenditure that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions are denominated are the Chinese Renminbi (RMB), Singapore Dollar (SGD), Vietnamese Dong (VND) and Ringgit Malaysia (RM). Exposure to currency risk is monitored on an ongoing basis and the Company endeavours to keep the net exposure at an acceptable level. When necessary, the Company uses forward exchange contracts to hedge its foreign currency risk. The Group's exposure to foreign currency risk as provided to the management of the Group is as follows:

| | 31 December 2014 | | | | 31 December 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Chinese Renminbi US$ | Singapore Dollar US$ | Vietnamese Dong US$ | Ringgit Malaysia US$ | Chinese Renminbi US$ | Singapore Dollar US$ | Vietnamese Dong US$ | Ringgit Malaysia US$ |
| **Group** | | | | | | | | |
| Trade receivables | 154,972 | 19,627 | 1,230,632 | 178,623 | 142,707 | 41,426 | 399,207 | 43,322 |
| Cash and cash equivalents | 285,676 | 194,442 | 819,461 | 347,541 | 1,517,740 | 326,708 | 765,190 | 629,065 |
| Trade payables | (59,789) | (231,555) | (34,756) | (7,922) | (97,255) | (160,111) | (187,558) | (6,269) |
| Net exposure | 380,859 | (17,486) | 2,015,337 | 518,242 | 1,563,192 | 208,023 | 976,839 | 666,118 |
| **Company** | | | | | | | | |
| Trade receivables | – | 1,623 | – | – | – | 4,815 | – | – |
| Cash and cash equivalents | – | 99,242 | – | 371 | – | 170,259 | – | 181 |
| Trade Payables | – | (3,450) | – | – | – | – | – | – |
| Net exposure | – | 97,415 | – | 371 | – | 175,074 | – | 181 |

**24. Financial risk management (Cont'd)**

***Sensitivity analysis***

A strengthening of the foreign currencies as indicated below, (Chinese Renminbi, Singapore dollars, Vietnamese Dong and Ringgit Malaysia) at the reporting dates against the respective functional currencies of the Group entities would have increased (decreased) profit before tax by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below:

| | Profit before tax | |
|---|---|---|
| | **Group** | **Company** |
| | **US$** | **US$** |
| **Effect of 10% strengthening of foreign currency** | | |
| **31 December 2014** | | |
| Chinese Renminbi | 38,086 | – |
| Singapore dollars | (1,747) | 9,742 |
| Vietnamese Dong | 201,534 | – |
| Ringgit Malaysia | 51,824 | 37 |
| **31 December 2013** | | |
| Chinese Renminbi | 156,319 | – |
| Singapore dollars | 20,802 | 17,507 |
| Vietnamese Dong | 97,684 | – |
| Ringgit Malaysia | 66,612 | 18 |

A weakening of the foreign currencies against the respective functional currencies of the Group entities at the reporting dates would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

***Interest rate risk***

At reporting date, the Group does not have any significant exposure to interest rate risk. Its interest rate risk is primarily attributable to fixed rate interest-bearing financial liabilities. The Group does not use derivative financial instruments to hedge its interest rate risk.

***Fair value sensitivity analysis for fixed rate instruments***

The Group does not account for any fixed rate financial assets or financial liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

## 24. Financial risk management (Cont'd)

***Fair values***

*Fair values versus carrying amounts*

The carrying amounts of financial assets and liabilities with maturity of less than one year (including trade and other receivables, cash and cash equivalents, trade and other payables and interest bearing financial liabilities) are assumed to approximate their fair values because of the short period to maturity.

No fair value hierarchy information is disclosed for financial assets and liabilities whose carrying amounts are measured at amortised cost basis which approximate their fair value due to their short-term nature and where the effect of discounting is immaterial.

The fair values of financial assets and liabilities together with the carrying amounts shown in the statement of financial position are as follows:

| | Note | Loans and receivables US$ | Financial liabilities designated at amortised cost US$ | Financial liabilities designated at fair value US$ | Total carrying amount US$ | Fair value US$ |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **31 December 2014** | | | | | | |
| Assets | | | | | | |
| Trade and other receivables | 10 | 11,617,646 | – | – | 11,617,646 | 11,617,646 |
| Cash and cash equivalents | 11 | 9,355,009 | – | – | 9,355,009 | 9,355,009 |
| | | 20,972,655 | – | – | 20,972,655 | 20,972,655 |
| **Liabilities** | | | | | | |
| Trade and other payables | 15 | – | 10,669,829 | – | 10,669,829 | 10,669,829 |
| Interest bearing financial liabilities | | | | | | |
| - Revolving credit facilities | 16 | – | 4,837,763 | – | 4,837,763 | 4,837,763 |
| Fair value of forward exchange contracts | 17 | – | – | 88,413 | 88,413 | 88,413 |
| | | – | 15,507,592 | 88,413 | 15,596,005 | 15,596,005 |
| **31 December 2013** | | | | | | |
| **Assets** | | | | | | |
| Trade and other receivables | 10 | 15,240,111 | – | – | 15,240,111 | 15,240,111 |
| Cash and cash equivalents | 11 | 11,669,215 | – | – | 11,669,215 | 11,669,215 |
| | | 26,909,326 | – | – | 26,909,326 | 26,909,326 |

**24. Financial risk management (Cont'd)**

***Fair values (Cont'd)***

*Fair values versus carrying amounts (Cont'd)*

| | Note | Loans and receivables US$ | Financial liabilities designated at amortised cost US$ | Financial liabilities designated at fair value US$ | Total carrying amount US$ | Fair value US$ |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **31 December 2013** | | | | | | |
| **Liabilities** | | | | | | |
| Trade and other payables | 15 | – | 16,420,162 | – | 16,420,162 | 16,420,162 |
| Interest bearing financial liabilities | | | | | | |
| - Revolving credit facilities | 16 | – | 3,887,612 | – | 3,887,612 | 3,887,612 |
| | | – | 20,307,774 | – | 20,307,774 | 20,307,774 |
| **Company** | | | | | | |
| **31 December 2014** | | | | | | |
| **Assets** | | | | | | |
| Trade and other receivables | 10 | 19,756,077 | – | – | 19,756,077 | 19,756,077 |
| Cash and cash equivalents | 11 | 519,725 | – | – | 519,725 | 519,725 |
| | | 20,275,802 | – | – | 20,275,802 | 20,275,802 |
| **Liabilities** | | | | | | |
| Trade and other payables | 15 | – | 6,284,668 | – | 6,284,668 | 6,284,668 |
| Interest bearing financial liabilities | | | | | | |
| - Revolving credit facilities | 16 | – | 2,000,000 | – | 2,000,000 | 2,000,000 |
| Fair value of forward exchange contracts | | – | – | 10,994 | 10,994 | 10,994 |
| | | – | 8,284,668 | 10,994 | 8,295,662 | 8,295,662 |
| **31 December 2013** | | | | | | |
| **Assets** | | | | | | |
| Trade and other receivables | 10 | 23,413,345 | – | – | 23,413,345 | 23,413,345 |
| Cash and cash equivalents | 11 | 949,857 | – | – | 949,857 | 949,857 |
| | | 24,363,202 | – | – | 24,363,202 | 24,363,202 |
| **Liabilities** | | | | | | |
| Trade and other payables | 15 | – | 10,212,702 | – | 10,212,702 | 10,212,702 |
| Interest bearing financial liabilities | | | | | | |
| - Revolving credit facilities | 16 | – | 1,000,000 | – | 1,000,000 | 1,000,000 |
| | | – | 11,212,702 | – | 11,212,702 | 11,212,702 |

## 24. Financial risk management (Cont'd)

***Fair value hierarchy***

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

| | Level 1 US$ | Level 2 US$ | Level 3 US$ | Total US$ |
|---|---|---|---|---|
| **Group** | | | | |
| **31 December 2014** | | | | |
| Fair value of forward exchange contracts | – | 88,413 | – | 88,413 |
| **Company** | | | | |
| **31 December 2014** | | | | |
| Fair value of forward exchange contracts | – | 10,994 | – | 10,994 |

At 31 December 2014, in order to determine the fair value of the forward exchange contracts, management had obtained independent valuations from the banks, which were based on valuation techniques in which significant inputs were based on observable market data. The forward exchange contracts were analysed as Level 2 as the inputs used for valuations were found on observable market data.

At 31 December 2013, the Group and the Company does not have financial instruments carried by fair value, by valuation method.

## 25. Commitments

***Operating leases as lessee***

Non-cancellable operating lease rentals are payable as follows:

| | Group | |
|---|---|---|
| | 2014 US$ | 2013 US$ |
| Within one year | 120,990 | 120,124 |
| Between one and five years | 483,959 | 480,495 |
| More than five years | 241,980 | 360,371 |
| | 846,929 | 960,990 |

The Group leases land under operating leases. The leases have a remaining lease period of 7 years (2013: 8 years) and generally have renewal options.

**25. Commitments (Cont'd)**

***Operating leases as lessor***

The Group has sublet part of its factory building. The future minimum lease payments receivable under non-cancellable leases are as follows:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | US$ | US$ |
| Within one year | 298,953 | 396,144 |
| Between one and five years | 163,594 | 355,187 |
| | 462,547 | 751,331 |

***Capital commitment***

In 2013, the Group entered into a purchase contract for property, plant and equipment for US$4,559,554 of which US$624,578 was incurred as at the last reporting date. At 31 December 2014, US$1,106,000 of the purchase commitment has not been incurred.

**26. Related parties**

***Transactions with key management personnel***

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling activities of the Group. The directors and members of the management team of the Group are considered as key management personnel.

Key management personnel compensation comprised:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | US$ | US$ |
| Short term employee benefits | 1,075,527 | 1,082,435 |
| Post-employment benefits | 33,918 | 37,310 |
| | 1,109,445 | 1,119,745 |

## 27. Accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 3. The Group believes the following critical accounting policies involve the most significant estimates and judgements used in the preparation of the financial statements.

***Depreciation and impairment of property, plant and equipment***

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets annually based on factors that include asset utilisation and the historical experience with similar assets after taking into account anticipated use of the assets. A reduction in the estimated useful lives of property, plant and equipment would increase the depreciation expense and decrease the carrying amount of property, plant and equipment.

The Group determines whether property, plant and equipment are impaired whenever indicators of impairment are identified. This requires an estimation of the fair value or value in use of the Group's individual assets or cash-generating units. Estimating the fair value requires the Group to estimate the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each asset or cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows.

***Write-down of inventories***

The Group holds a variety of polyethylene packaging and resins materials to cater to various customers' demands.

Market values of the Group's inventory fluctuate significantly due to changes in oil prices and economic environment. The Group is exposed to significant valuation losses if it is unable to sell the inventory or the finished goods above its carrying amounts.

Management uses judgement to determine the write-down in inventory values due to market price fluctuations or inventory obsolescence. Such reviews are done on an annual basis and possible changes in these estimates could result in revisions to the valuation of inventory. An increase in the Group's allowance for inventory write down or obsolescence would increase the Group's recorded operating expenses and decrease the carrying amount of inventories.

***Impairment of trade receivables***

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. An increase in the Group's allowance for doubtful receivables would increase the Group's other operating expenses and decrease the carrying amount of trade receivables.

## 28. Subsequent events

In January 2015, the Group's subsidiary accepted an offer from an external party to acquire a leasehold land in Vietnam for a purchase consideration of US$400,000. The leasehold land is intended to be used as part of the existing business operations in Vietnam and the lease expires in March 2058.

# SHAREHOLDER INFORMATION

As at 18 March 2015

| | | |
|---|---|---|
| Issued and fully paid-up capital | : | S$31,306,638.73 |
| Number of shares | : | 209,971,310 |
| Class of shares | : | Ordinary shares |
| Voting rights | : | One vote per share |

**DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS AS AT 18 MARCH 2015**

| Size of Shareholdings | Number of Shareholders | % | Number of Shares | % |
|---|---|---|---|---|
| 1 - 99 | 0 | 0.00 | 0 | 0.00 |
| 100 - 1,000 | 304 | 32.80 | 303,159 | 0.15 |
| 1,001 - 10,000 | 465 | 50.16 | 2,337,001 | 1.11 |
| 10,001 - 1,000,000 | 145 | 15.64 | 15,666,000 | 7.46 |
| 1,000,001 and above | 13 | 1.40 | 191,665,150 | 91.28 |
| **Total** | 927 | 100.00 | 209,971,310 | 100.00 |

**SUBSTANTIAL SHAREHOLDERS**

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as at 18 March 2015 are as follows:-

| | No. of Ordinary shares | | | |
|---|---|---|---|---|
| Name | Direct Interest | % | Deemed Interest | % |
| INTRACO Limited | 62,800,000 | 29.91 | 23,445,000 | 11.17 |
| Yeo Hock Leng(1) | 27,839,496 | 13.26 | 103,000 | 0.05 |
| Goh Seok Eng(1) | 19,056,084 | 9.08 | 103,000 | 0.05 |
| Lee Low Meng | 14,733,781 | 7.02 | - | - |
| Syn Chung Wah/Quek Soh Mui Lucy | 13,696,597 | 6.52 | - | - |
| Chia Chue Soong/Tay Giok Siang | 12,153,659 | 5.79 | - | - |
| TH Investments Pte Ltd(2) | - | - | 86,245,000 | 41.08 |
| Tat Hong Investments Pte Ltd(2) | - | - | 86,245,000 | 41.08 |
| Chwee Cheng & Sons Pte Ltd(2) | - | - | 86,245,000 | 41.08 |
| Ng San Tiong(3) | - | - | 86,245,000 | 41.08 |
| Ng Sun Ho(3) | - | - | 86,245,000 | 41.08 |
| Ng San Wee(3) | - | - | 86,245,000 | 41.08 |
| Ng Sun Giam(3) | - | - | 86,245,000 | 41.08 |
| Amtrek Investment Pte Ltd(4) | - | - | 86,245,000 | 41.08 |
| Macondray Holdings Pte. Ltd.(5) | - | - | 86,245,000 | 41.08 |
| Representations International (H.K.) Limited(6) | - | - | 86,245,000 | 41.08 |
| Asia Resource Corporation Pte Ltd(7) | - | - | 86,245,000 | 41.08 |
| Resource Pacific Holdings Pte Ltd(8) | - | - | 86,245,000 | 41.08 |
| Chew Leong Chee(9) | - | - | 86,245,000 | 41.08 |
| Melanie Chew Ng Fung Ning(10) | | | | |

# SHAREHOLDER INFORMATION

As at 18 March 2015

| | |
|---|---|
| Note 1 | Mr Yeo Hock Leng and Mdm Goh Seok Eng are deemed interested in the 103,000 shares held by their son. |
| Note 2 | TH Investments Pte Ltd ("**THIPL**") owns 28.43% interest in INTRACO Limited ("**IL**"), which has an aggregate interest of 41.07% in the Company. THIPL is wholly owned by Tat Hong Investments Pte Ltd ("**Tat Hong IPL**"), which in turn is wholly owned by Chwee Cheng & Sons Pte Ltd ("**CCSPL**").<br><br>Each of THIPL, Tat Hong IPL and CCSPL is therefore deemed, pursuant to Section 7 of the Companies Act, Cap. 50 ("**Act**"), to have an interest in all the shares held by IL in the Company. |
| Note 3 | 42.03% of the issued share capital of CCSPL is owned by The Chwee Cheng Trust ("**CCT**") constituted under a trust deed. Mr Ng San Tiong, Mr Ng Sun Ho, Mr Ng San Wee and Mr Ng Sun Giam are the joint trustees of CCT.<br><br>Pursuant to Section 7 of the Act, each of Mr Ng San Tiong, Mr Ng Sun Ho, Mr Ng San Wee and Mr Ng Sun Giam have a deemed interest in CCT's 42.03% shareholding interest in CCSPL and a direct interest in CCSPL.<br><br>Accordingly, each of Mr Ng San Tiong, Mr Ng Sun Ho, Mr Ng San Wee and Mr Ng Sun Giam has a deemed interest in 28.43% of the issued share capital of IL which are held by THIPL and are therefore also deemed to be interested in all the shares held by IL in the Company. |
| Note 4 | Amtrek Investment Pte Ltd ("**AIPL**") owns 27.82% interest in IL. As a result, AIPL is deemed to have an interest in all the shares held by IL in the Company. |
| Note 5 | Macondray Holdings Pte. Ltd. ("**MHPL**") owns 60% interest in AIPL. AIPL owns 27.82% interest in IL. As a result, MHPL is deemed to be interested in all the shares held by IL in the Company. |
| Note 6 | Representations International (H.K.) Limited ("**RIHK**L") owns 40% interest in AIPL. AIPL owns 27.82% interest in IL. As a result, RIHKL is deemed to be interested in all the shares held by IL in the Company. |
| Note 7 | Asia Resource Corporation Pte Ltd ("**ARCPL**") owns 80.78% and 100% interest in MHPL and RIHKL respectively. MHPL and RIHKL owns 60% and 40% interest respectively in AIPL. AIPL owns 27.82% interest in IL. As a result, ARCPL is deemed to be interested in all the shares held by IL in the Company. |
| Note 8 | Resource Pacific Holdings Pte Ltd ("**RPHPL**") owns 30.54% interest in ARCPL. ARCPL owns 80.78% and 100% interest in MHPL and RIHKL respectively. MHPL and RIHKL owns 60% and 40% interest respectively in AIPL. AIPL owns 27.82% interest in IL. As a result, RPHPL is deemed to be interested in all the shares held by IL in the Company. |
| Note 9 | Mr Chew Leong Chee ("**Mr Chew**") owns 60% direct interest and 40% indirect interest through his spouse, Dr Melanie Chew Ng Fung Ning ("**Dr Melanie Chew**"), in RPHPL. Mr Chew also owns 37.64% and 99.99% interest in ARCPL and Pontirep Investments Limited ("**PIL**") respectively.<br><br>RPHPL and PIL own 30.54% and 11.76% interest respectively in ARCPL. ARCPL owns 80.78% and 100% interest in MHPL and RIHKL respectively. MHPL and RIHKL owns 60% and 40% interest respectively in AIPL. AIPL owns 27.82% interest in IL. As a result, Mr Chew is deemed to be interested in all the shares held by IL in the Company. |
| Note 10 | Dr Melanie Chew owns 40% direct interest in RPHPL. Dr Melanie Chew is also deemed to be interested in 60%, 37.64% and 99.99% interest in RPHPL, ARCPL and PIL respectively held by her spouse, Mr Chew.<br><br>RPHPL and PIL own 30.54% and 11.76% interest respectively in ARCPL. ARCPL owns 80.78% and 100% interest in MHPL and RIHKL respectively. MHPL and RIHKL owns 60% and 40% interest respectively in AIPL. AIPL owns 27.82% interest in IL. As a result, Dr Melanie Chew is deemed to be interested in all the shares held by IL in the Company. |

# SHAREHOLDER INFORMATION

As at 18 March 2015

**TWENTY-TWO LARGEST SHAREHOLDERS AS AT 18 MARCH 2015**

| | NAME OF SHAREHOLDER | NO. OF SHARES | % |
|---|---|---|---|
| 1 | INTRACO LIMITED | 62,800,000 | 29.91 |
| 2 | YEO HOCK LENG | 27,839,496 | 13.26 |
| 3 | CIMB SECURITIES (SINGAPORE) PTE LTD | 23,445,000 | 11.17 |
| 4 | GOH SEOK ENG | 19,056,084 | 9.08 |
| 5 | LEE LOW MENG | 14,733,781 | 7.02 |
| 6 | QUEK SOH MUI LUCY | 13,696,597 | 6.52 |
| 7 | CHIA CHUE SOONG OR TAY GIOK SIANG | 12,153,659 | 5.79 |
| 8 | GOH SEOK KEE | 6,751,000 | 3.22 |
| 9 | HOE PUAY CHOO | 3,906,533 | 1.86 |
| 10 | GOH LUCY | 2,955,000 | 1.41 |
| 11 | MA FAT YING | 2,142,000 | 1.02 |
| 12 | DBS NOMINEES PTE LTD | 1,174,000 | 0.56 |
| 13 | TAN NIANG SOR | 1,012,000 | 0.48 |
| 14 | LAW CHEN MAY | 990,000 | 0.47 |
| 15 | LAW CHEONG YAN | 880,000 | 0.42 |
| 16 | GOH CHA BOH | 808,000 | 0.38 |
| 17 | TAN SOON LIM | 800,000 | 0.38 |
| 18 | LOW CHENG LUM | 735,000 | 0.35 |
| 19 | LAI WENG KAY | 586,000 | 0.28 |
| 20 | ANG CHENG KIAT | 500,000 | 0.24 |
| 21 | LEE KOK PUN | 500,000 | 0.24 |
| 22 | PHANG HUEY FEN | 500,000 | 0.24 |
| | **TOTAL** | **197,964,150** | **94.30** |

**FREE FLOAT [Rule 1207(9) of the Listing Manual]**

As at 18 March 2015, approximately 17.17% of the shareholding in the Company was held in the hands of the public (on the basis of information available to the Company). The Company did not hold any treasury shares as at 18 March 2015.

Accordingly, the Company has complied with Rule 723 of the Listing Manual.

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Dynamic Colours Limited (the "Company") will be held at Octagon, Golf Clubhouse at Level 1, Orchid Country Club, 1 Orchid Club Road, Singapore 769162 on Thursday, 30 April 2015 at 10.00 a.m. for the following purposes:

**AS ORDINARY BUSINESS**

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 December 2014 together with the Auditors' Report thereon. **(Resolution 1)**

2. To declare a final tax exempt (one-tier) dividend of 1.5 Singapore cents per ordinary share for the year ended 31 December 2014. **(Resolution 2)**

3. To re-elect the following Directors retiring pursuant to Article 103 of the Company's Articles of Association:-

   Mdm Goh Seok Eng [See Explanatory Note (i)] **(Resolution 3)**
   Mr Tan Lye Huat [See Explanatory Note (ii)] **(Resolution 4)**

4. To approve the payment of Directors' fees of S$192,000 for the year ending 31 December 2015, to be paid quarterly in arrears. [See Explanatory Note (iii)] **(Resolution 5)**

5. To appoint BDO LLP as Auditors of the Company in place of KPMG LLP, and to authorise the Directors to fix their remuneration. [See Explanatory Note (iv)] **(Resolution 6)**

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

**AS SPECIAL BUSINESS**

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

7. **Authority to allot and issue shares up to fifty per cent. (50%) of the total number of issued shares excluding treasury shares**

   "That, pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "Listing Manual"), authority be and is hereby given to the Directors to:-

   (a) allot and issue shares in the Company; and

   (b) issue convertible securities and any shares in the Company pursuant to convertible securities

   (whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors shall in their absolute discretion deem fit, provided that the aggregate number of shares (including any shares to be issued pursuant to the convertible securities) in the Company to be issued pursuant to such authority shall not exceed fifty per cent. (50%) of the total number of issued shares excluding treasury shares, of which the aggregate number of shares and convertible securities issued other than on a pro-rata basis to the existing shareholders of the Company shall not exceed ten per cent. (10%) of the total number of issued shares excluding treasury shares. Unless revoked or varied by the Company in general meeting, such authority shall continue in full force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting is required by law to be held, whichever is earlier, except that the Directors shall be authorised to allot and issue new shares pursuant to the convertible securities notwithstanding that such authority has ceased.

For the purposes of this Resolution and Rule 806(3) of the Listing Manual, the total number of issued shares excluding treasury shares is based on the Company's total number of issued shares excluding treasury shares at the time this Resolution is passed after adjusting for:

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

(ii) new shares arising from exercising 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 the rules of the Listing Manual; and

(iii) any subsequent bonus issue, consolidation or subdivision of shares."
[See Explanatory Note (v)] **(Resolution 7)**

**8. Authority to grant options and issue shares under the Dynamic Colours Employee Share Option Scheme**

"That, pursuant to Section 161 of the Companies Act, Cap. 50, the Directors of the Company be and are hereby authorised to offer and grant options in accordance with the Dynamic Colours Employee Share Option Scheme (the "Scheme") and to issue such shares as may be required to be issued pursuant to the exercise of the options granted under the Scheme provided always that the aggregate number of shares to be issued pursuant to the Scheme shall not exceed fifteen per cent. (15%) of the total number of issued shares excluding treasury shares of the Company from time to time and that such authority shall, unless revoked or varied by the Company in general meeting, shall continue in full force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting is required by law to be held, whichever is earlier."
[See Explanatory Note (vi)] **(Resolution 8)**

By Order of the Board

Chan Wan Mei
Company Secretary
Singapore, 15 April 2015

**Explanatory Notes**

(i) Ordinary Resolution 3 is to re-elect Mdm Goh Seok Eng who will be retiring by rotation under Article 103 of the Articles of Association and if she is re-elected, she will remain as Deputy Group Managing Director and Technical Director. Mdm Goh is considered a Non-Independent Director. Key information on Mdm Goh is found on page 10 of the Annual Report.

(ii) Ordinary Resolution 4 is to re-elect Mr Tan Lye Huat who will be retiring by rotation under Article 103 of the Articles of Association and if he is re-elected, he will remain as Chairman of the Audit and Risk Committee and member of the Nominating and Remuneration Committees and will be considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited and Guideline 2.3 of Principle 2 of the Code of Corporate Governance 2 May 2012. Key information on Mr Tan is found on page 11 of the Annual Report.

(iii) Ordinary Resolution 5 is to seek approval for the payment of S$192,000 to all Non-Executive Directors as Directors' Fees for the financial year ending 31 December 2015 (which is the same amount for the preceding financial year). The exact amount of director's fees received by each Director for the financial year ended 31 December 2014 is disclosed in full in the Annual Report.

(iv) Please refer to Circular which sets out the reasons and rationale for the proposed change of auditors.

(v) The Ordinary Resolution 7, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue shares and convertible securities in the Company. The aggregate number of shares (including any shares issued pursuant to the convertible securities) which the Directors may allot and issue under this Resolution will not exceed fifty per cent. (50%) of the total number of issued shares excluding treasury shares (as defined in Resolution 7) of the Company. For issues of shares and convertible securities other than on a pro-rata basis to all shareholders, the aggregate number of shares to be issued shall not exceed ten per cent. (10%) of the total number of issued shares excluding treasury shares (as defined in Resolution 7) of the Company. This authority will, unless previously revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. However, notwithstanding the cessation of this authority, the Directors are empowered to issue shares pursuant to any convertible securities issued under this authority.

(vi) Ordinary Resolution 8 , if passed, will empower the Directors of the Company, from the date of the passing of Ordinary Resolution 8 to the date of the next Annual General Meeting or the date by which the next Annual General Meeting is required by law to be held or when varied or revoked by the Company in general meeting, whichever is earlier, to allot and issue shares in the Company pursuant to the exercise of the options under the Dynamic Colours Employee Share Option Scheme of up to a number not exceeding in total fifteen per centum (15%) of the total number of issued shares of the Company from time to time.

**Notes:**

1. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.

3. The instrument appointing a proxy must be deposited at the Company's registered office at 55A Yishun Industrial Park A, SL Building, Singapore 768729, not less than forty-eight (48) hours before the time for holding the Annual General Meeting.

4. CPF investors who wish to attend the Annual General Meeting as Observers have to submit their requests through their respective Agent Banks so that their Agent Banks may register with the Company not less than forty-eight (48) hours before the time for holding the Annual General Meeting.

**Personal data privacy:**

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

**DYNAMIC COLOURS LIMITED**
Company Registration Number 199304233Z
(Incorporated in the Republic of Singapore)

**IMPORTANT**
1. For investors who have used their CPF monies to buy Dynamic Colours Limited shares, the Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF Investors who wish to attend the AGM as Observers have to submit their request through their respective Agent Banks so that their respective Agent Banks may register, in the required format with the Company by the timeframe specified. [Agent Banks: Please refer to Note 8 on the required format.]

Personal data privacy
By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Extraordinary General Meeting dated 15 April 2015.

## PROXY FORM

I/We ____________________________________ (Name), _________________________(NRIC/Passport No.)

of ______________________________________________________________________________(Address)

being a member/members of DYNAMIC COLOURS LIMITED (the "Company") hereby appoint:

| Name | Address | NRIC/Passport Number | Proportion of Shareholdings (%) |
|---|---|---|---|
| | | | |

and/or (delete as appropriate)

| Name | Address | NRIC/Passport Number | Proportion of Shareholdings (%) |
|---|---|---|---|
| | | | |

or failing * him/her/them, the Chairman of the meeting as my/our proxy/proxies to vote for me/us on my/our behalf, at the Annual General Meeting of the Company (the "Meeting") to be held at Octagon, Golf Clubhouse at Level 1, Orchid Country Club, 1 Orchid Club Road, Singapore 769162 on Thursday, 30 April 2015 at 10.00 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any matter arising at the Meeting.

| No. | Resolutions Relating to: | For | Against |
|---|---|---|---|
| 1. | Directors' Report and Accounts for the year ended 31 December 2014 | | |
| 2. | Payment of final dividend | | |
| 3. | Re-election of Mdm Goh Seok Eng | | |
| 4. | Re-election of Mr Tan Lye Huat | | |
| 5. | Payment of Directors' fees of S$192,000 for the year ending 31 December 2015, to be paid quarterly in arrears | | |
| 6. | Appointment of BDO LLP as Auditors of the Company in place of KPMG LLP | | |
| 7. | Authority to allot and issue shares pursuant to Section 161 of the Companies Act, Cap. 50 | | |
| 8. | Authority to grant options and issue shares under the Dynamic Colours Employee Share Option Scheme | | |

Dated this ____________ day of____________ 2015

| Total No. of Shares | No. of Shares |
|---|---|
| In CDP Register | |
| In Register of Members | |

_________________________________________
Signature(s) of Member(s)
or, Common Seal of Corporate Member

**IMPORTANT: PLEASE READ NOTES OVERLEAF**

**NOTES**

1. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead.

2. Where a member appoints more than one proxy, he shall specify the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy. If no such proportion or number is specified, the first named proxy may be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named.

3. A proxy need not be a member of the Company.

4. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in the Depository Register and registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all shares held by the member.

5. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at 55A Yishun Industrial Park A, SL Building, Singapore 768729, not less than forty-eight (48) hours before the time set for the Meeting.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.

7. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

8. Agent Banks acting on the request of CPF investors who wish to attend the meeting as Observers are required to submit in writing, a list with details of the investors' name, NRIC/Passport numbers, addresses and numbers of shares held. The list, signed by an authorised signatory of the Agent Bank, should reach the Company's registered office not later than forty-eight (48) hours before the time appointed for holding the AGM.

**GENERAL:**

The Company shall be entitled to reject a proxy form which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the proxy form. In addition, in the case of shares entered in the Depository Register, the Company may reject a proxy form if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

**DYNAMIC COLOURS LIMITED**

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