

Issuer: Dynamic Colours Limited
Security: Dynamic Colours Limited

Meeting details:

Date: 23 April 2018

Time: 9.30 a.m.

Venue: Emerald Suite, Orchid Country Club, 1 Orchid Club Road, Singapore 769162

Company Description

Dynamic Colours Limited, an investment holding company, operates in resin compounding and polyethylene packaging businesses. It provides colour and modified resin compounds that are used in the manufacture of external casings or component parts of electrical appliances and electronic devices; and toll compounding services. The company offers its resin compounding products to the plastic injection molders and original equipment manufacturers. It also manufactures and supplies heavy-duty bags, form-fill-seal rolls, and stretch/shrink hoods, which are used for heavy weight packing, bulk storage, and transportation purposes. The company operates in Singapore, the People's Republic of China, Malaysia, Vietnam, and Indonesia. The company was founded in 1993 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=D6U)

1. As shown in the Financial Highlights (page 6 of the annual report), the profit after tax and earnings per share has been on an uptrend over the 5-year period if the one-time net disposal gain of US\$5.1 million from the Yishun factory was excluded.
 - (i) To help shareholders understand the group's performance better, would the board/management review the charts and draw the bars/pie charts according to scale so that shareholders can look at the charts and diagrams to quickly gain a good overview of the group's performance? Two examples from the Financial Highlights (page 6) have been extracted and are shown below.
(Source: Company annual report)

Answer:

Please refer to attached graphic / pie chart

- (ii) Despite the lower revenue due to lower raw material and selling prices in the past few years, the group's profits have held steady and showed an increasing trend. Would management consider also disclosing the production/sale tonnage of the resin compounding and of the polyethylene packaging?

Answer:

While the information is available, it is regarded as sensitive and may jeopardise the competitiveness of the Group, thus the Management prefers not to disclose them.

2. Would the board/management provide better clarity to the following group's operational and financial matters? Specifically:

- (i) Vietnam: Mdm Pun Lay Peng resigned as the General Manager of the Company's subsidiary, Huiye (Vietnam) Plastic Co., Ltd., Vietnam with effect from 10 August 2017 after being on the job for more than 9 years. What is the status of the search for a replacement? Who is managing and running the Vietnam operations in the interim to make sure that the Vietnam operations continue to run smoothly?

Answer:

The functions of GM has been assumed within HVP ranks by an acting GM and supported by the Executive Directors. The company has recently appointed a COO on April 17th 2018 to augment senior management strength and his duties include HVP operations

- (ii) New factory: The group has invested US\$0.7 million and US\$0.8 million in the property, plant and equipment and lease prepayment for the new factory in Vietnam respectively and has committed a further US\$2.0 million for capital expenditure. Who is overseeing the design and construction of the new Vietnam factory?

Answer:

The executive directors are overseeing the design and construction of the new Vietnam factory.

- (iii) Utilisation: What is the utilisation rate of the group's production facilities? How much growth can the current facilities support?

Answer:

The present utilisation of facilities of the Group is at around 65% for Resin Compounding and 70% for Polyethylene Packaging.

- (iv) Inventories: As seen in Note 8 (page 92 – Inventories), the level of raw material held by the group has increased from US\$3.8 million to US\$5.8 million as at 31 December 2017. Can management help shareholders understand if the build-up in inventories was a result of better order visibility or was this done in anticipation of rising raw material prices?

Answer:

Higher levels of inventories were held in anticipation of sales cycle and market movements in raw material costs.

3. The reversal of impairment loss on investment in Suzhou Chemical & Light Industry Co., Ltd. was highlighted as one of two key audit matters in the Independent Auditor's Report (page 55). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As disclosed, the original cost of the Company's investment in Suzhou Huiye Chemical & Light Industry Co., Ltd was US\$5.1 million and subsequently impaired to US\$3.5 million, following an impairment loss of US\$1.6 million. There was a capital reduction exercise carried out in November 2017 to reduce the cost to US\$1.2 million.

- (i) Can management help shareholders understand the reason for the capital reduction exercise? What was the impact on cash flow to the company as a reduction of the capital reduction?

Answer:

Suzhou Huiye Chemical & Light Industry Co., Ltd. ("SHCL"), had effected a capital reduction exercise of its registered capital to return to the Company an amount of USD3,834,600 in paid-up capital which is in excess of SHCL's needs. There was no impact on cash flow to the Group.

In the year, management made full reversal of the US\$1.6 million impairment.

- (ii) In Note 7 (page 91 – Investment in subsidiaries), it was disclosed that the discount rate used in measuring the value in use was 9.0%. Can management also disclose the revenue growth rate, gross profit margin growth rate and other key assumptions used in the calculation of the subsidiary's value-in-use?

Answer:

FRS 36 only requires the disclosure of discount rate used in measuring the value in use and the disclosure of the other assumptions used is not mandatory. Information other than the discount rate used would not be made available due to the intense market and tough competitive environment.

- (iii) Can the audit committee help shareholders understand how the reversal of \$1.6 million impacted the Consolidated statement of comprehensive income (as shown on page 60)? How was the US\$1.6 million accounted for in the P&L statement?

Answer:

There is no impact in the Group financial statements. It was recorded as other income at DCL company level.