



**DYNAMIC COLOURS
LIMITED**



COMMITTED TO SUSTAINABLE



ANNUAL REPORT 2016



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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.

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, Dell, BenQ, Netgear, Sharp, Sony, Asus, Alcatel and Lego. Our production facilities in Suzhou are amongst the largest in Jiangsu Province, PRC, and are strategically located near existing and potential customers. 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.





HAIRMAN'S MESSAGE



The Group achieved a positive cash flow from its operating activities of US\$4.85 million with a net profit of US\$3.26 million

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DEAR SHAREHOLDERS,

FY2016 is another challenging year for the Group's operations amidst persistent bearish sentiments in the global economy. In this regard, we take pride in the Group's efforts in effectively and strategically positioning our businesses to cope with the tough market conditions, thus contributing to FY2016 results for another year of success.

The Group has been enhancing its product mix and continues to leverage on its core strengths in manufacturing including lean processes management and flat management structures. These factors have helped us to respond to rapid changes quickly and strengthen the Group's competitive edge in the market.

With the full commissioning of our heavy duty packaging bag blown film lines and the new stretch hood line in mid-2016, the manufacturing plant in Senai has doubled the production capacity for Polyethylene Packaging (PP) in Malaysia. The closure of the Singapore PP factory at Yishun and the transfer of PP manufacturing to Malaysia in 2015, together with higher production volumes, have brought about new cost efficiencies. The subsequent expansion of the facilities at Senai has also placed the PP business in a better position for expansion.

FY2016 is also a milestone year for the Group's manufacturing facilities in Vietnam. We have completed the construction of our own manufacturing plant in VSIP II-A, Binh Duong in Q4 2016 and are poised for good business growth in the coming years.

In Suzhou, China, the Group has further streamlined the workforce in its Resin Compounding (RC) activities and is deriving some rental income from the unused factory space. Our Suzhou business remains profitable.

OPERATING HIGHLIGHTS

The Group recorded a net profit of US\$3.26 million as against US\$7.31 million for FY2015. Excluding the net gain of US\$5.12 million on disposal of our Yishun industrial property and the loss of US\$443K from the discontinued injection moulding operations in Vietnam, the comparable Group net profit for FY2015 is US\$2.63 million. In this light, the increase in profit over FY2015 is 24.0%.

Group turnover in FY2016 declined 13.2% to US\$41.78 million from US\$48.15 million in FY2015, largely due to the impact of lower raw material costs on selling prices in both RC and PP segments and partly due to lower RC sales quantity. RC segment revenue declined 21.2% to US\$22.26 million from US\$28.23 million due to a 13.2% fall in average selling price and 9.2% fall in sales quantity.

Revenue for PP segment declined 2.0%, caused by 6.0% decrease in average selling price and offset by a 4.3% increase in sales quantity. The Group's gross profit margin improved to 17.5% in FY2016 from 13.5% in FY2015 facilitated in part by the Group's improved cost efficiencies.

The Group achieved a positive net cash flow of US\$4.85 million from its operating activities, which is considerably more than the net profit of US\$3.26 million. A free cash flow (net operating cash flow less net investing cash flow) of US\$3.37 million was achieved for the year. As at 31 December 2016, the Group has a healthy cash balance of US\$8.98 million. There were no borrowings at year end.

LOOKING AHEAD

In the foreseeable future, the RC and PP market segments of the Group are likely to remain highly competitive amidst challenges faced in the volatile crude oil and currency markets and uncertain macroeconomic conditions. The Group will continue to leverage on its strong market and as a preferred business partner in the markets in which it operates. We continue to expand our customer base, build long-term relationships and grow with our customers.

DIVIDEND

For the year ended 31 December 2016, the Board has recommended a final dividend of S\$0.015 per share, tax exempt, which equates to S\$3.15 million in total.

ACKNOWLEDGEMENTS

On behalf of the Board and Management, we would like to express our sincere thanks and appreciation to Mr Soon Boon Siong who will be retiring from the Board of Directors at our forthcoming AGM. He was appointed as an Independent Director in April 2011. We are grateful to Mr Soon for his contributions as our director and at the various Board Committees over the past 6 years. We wish him all the very best.

We would also like to thank all shareholders for your confidence and interest in Dynamic Colours Limited, and to our clients for continuing to place your loyalty and trust in us year after year. To our management team, staffs, bankers, business associates and all stakeholders, thank you for your continued support. Let us all work together towards another year of progress.

YEO HOCK LENG

Executive Chairman and
Group Managing Director





PERATIONS REVIEW



OVERVIEW OF GROUP'S BUSINESS

The core businesses of Dynamic Colours Group ("the Group") are resin compounding and polyethylene packaging. Currently, our resin compounding ("RC") segment comprises our wholly owned subsidiaries in Suzhou, Vietnam and Malaysia, namely, Suzhou Huiye Plastic Industry Co., Ltd ("SHP"), Suzhou Huiye Chemical & Light Industry Co., Ltd ("SHC"), Huiye (Vietnam) Plastic Co., Ltd ("HVP") and Huiye Polymer (M) Sdn. Bhd. ("HPM"). Our polyethylene packaging ("PP") segment is represented by SL Packaging Industries Pte Ltd ("SLP") in Singapore and HPM in Malaysia. The Group's injection moulding ("IM") business in Vietnam ceased operations in July 2015.

In FY2016, our RC segment accounted for 53.3% of the total Group revenue (FY2015: 56.5%) and 46.7% (FY2015: 39.9%) was contributed by the PP segment.

STATEMENT OF COMPREHENSIVE INCOME

Group revenue decreased by US\$6.37 million (13.2%), from US\$48.15 million in FY2015 to US\$41.78 million in FY2016. Revenue for RC segment declined by 21.2%, from US\$28.23 million to US\$22.26 million. The lower revenue was due to a decrease in RC sales tonnage by 9.2% to 14,041MT and a reduction in average selling price by 13.2% to US\$1,585 per tonnage.

The PP segment revenue decreased by 2.0% from US\$19.92 million to US\$19.52 million despite an increase in sales tonnage of 4.3%, which was not enough to counter the effect of a 6.0% decline in average selling price.

Cost of sales fell 17.2% to US\$34.49 million in FY2016 from US\$41.67 million in FY2015 resulting in an increase in gross profit margin to 17.5% in FY2016 from 13.5% in FY2015.

Other income decreased from US\$5.96 million in FY2015 to US\$516K in FY2016. The decrease was mainly due to the inclusion of the capital gain from sale of Yishun factory in FY2015. The FY2016 other income of US\$516K comprises:

- (a) Rental income US\$153K.
- (b) Sale of raw materials and a write-back of an old payable and others, totaling US\$313K.
- (c) Profit on disposal of fixed assets at US\$50K.

Distribution expenses decreased by 5.1% from US\$958K to US\$909K mainly due to lower manpower cost in Singapore and freight costs in China as a result of RC's lower sales volume.

Administrative expenses increased from US\$2.60 million in FY2015 to US\$2.76 million in FY2016. This was due to employee compensation of US\$286K in China entities, partially offset by reduction in staff cost and property tax.

Other operating expenses increased by US\$96K from US\$120K in FY2015 to US\$216K in FY2016, mainly due to cost of stock written off and higher depreciation.

Finance income (representing bank interest income) increased from US\$12K to US\$42K. Finance cost (representing interest expense and net foreign exchange loss) declined from US\$170K to US\$77K. This is primarily due to a decrease in interest expense from US\$128K to US\$38K owing to lower trade and other financing. Net foreign exchange loss remained low; it was reduced from US\$42K to US\$36K.

As a result of the above, the Group's profit for the year decreased by 55.4% from US\$7.31 million in FY2015 to US\$3.26 million in FY2016.

STATEMENT OF FINANCIAL POSITION

The decrease in property, plant and equipment from US\$17.01 million to US\$16.42 million was mainly the result of a depreciation charge of US\$1.47 million and a write-off of assets with a book value of US\$651K, and offset by the incurrence of US\$1.16 million for factory building and plant and equipment in Vietnam.

The value of inventories increased by US\$36K, together with a 17.2% drop cost of sales has resulted in the number of days inventory increased from 48 days to 59 days (see Liquidity and Capital Resources below).

The increase in trade and other receivables by US\$1.26 million was due to higher sales recorded towards the end of FY2016 as well as an increase in receivable turnover days.

The increase in trade and other payables by US\$0.93 million to US\$5.51 million was largely due to the increase in the purchase of raw materials towards the year end.

Interest bearing liabilities decreased from US\$969K to zero was due to repayment of short-term loans.

The derivative financial instruments was fair value loss of forward exchange contracts.

STATEMENT OF CASH FLOWS

Cash and cash equivalents decreased by US\$2.45 million, from US\$11.43 million to US\$8.98 million.

The Group achieved a positive cash flow from its operating activities of US\$4.85 million compared with a net profit before tax of US\$3.89 million. The excess was largely the result of the depreciation add-back, decrease in prepayments and increase in payables being offset by the increase in trade and other receivables and income tax payment.

There was a net cash outflow of US\$1.48 million from investing activities, largely due to the acquisition of property, plant and equipment in Vietnam and Malaysia.

The net cash outflow of US\$5.50 million in financing activities was the result of dividend payments and repayment of short term loans and trust receipts, offset by proceeds from short term loans and trust receipts.



LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2016, the Group's net current assets was US\$16.42 million (31 December 2015: US\$18.10 million), with a current ratio of 3.62 as compared to 4.04 as at 31 December 2015.

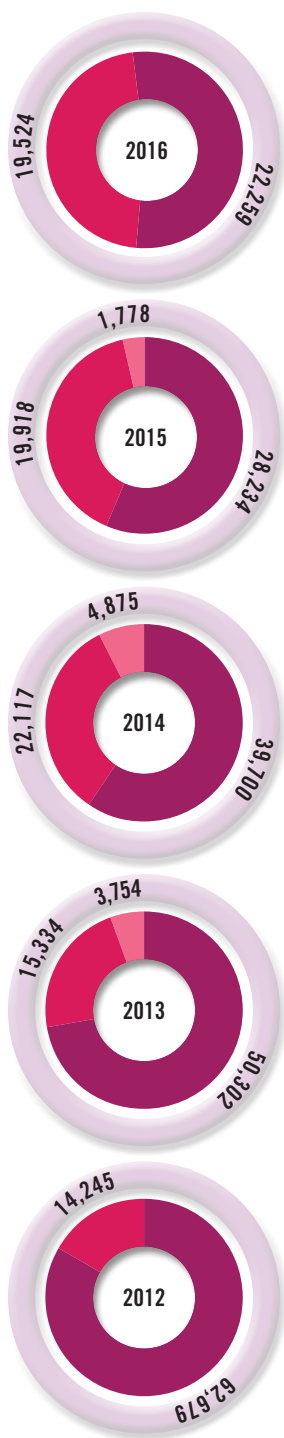
The net working capital cycle increased to 74 days as at 31 December 2016 from 65 days as at 31 December 2015 due to the following factors:

- (i) Inventories, in terms of stock turnover days, increased to 59 days (31 December 2015: 48 days) and,
 - (ii) Trade receivables, in terms of debtors turnover days, increased to 69 days (31 December 2015: 50 days).
- and offset by
- (iii) Trade payables, in terms of creditors turnover days, increased to 54 days (31 December 2015: 33 days).



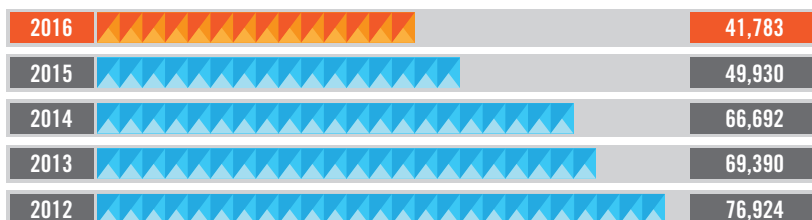
FINANCIAL HIGHLIGHTS

REVENUE BY OPERATING SEGMENT (US\$'000)

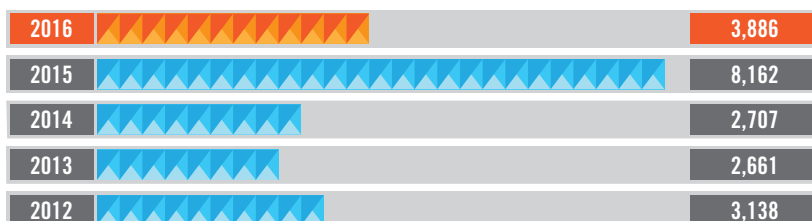


■ RESIN COMPOUNDING
■ POLYETHYLENE PACKAGING
■ INJECTION MOULDING
 (Ceased operations in July 2015)

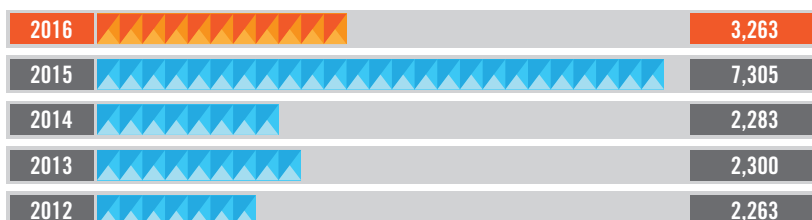
REVENUE (US\$'000)



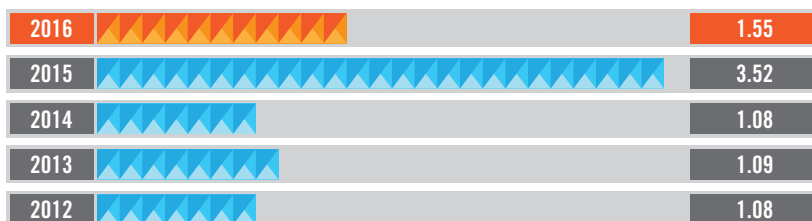
PROFIT BEFORE INCOME TAX (US\$'000)



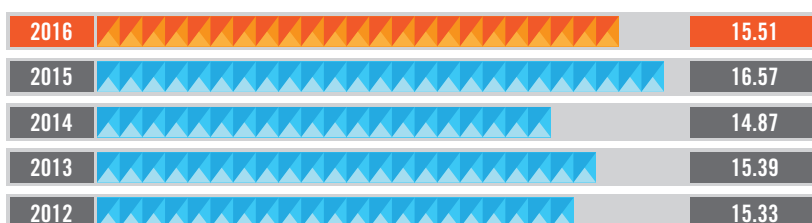
PROFIT AFTER INCOME TAX (US\$'000)



BASIC AND DILUTED EARNINGS PER SHARE (US CENTS)



NET ASSET VALUE PER SHARE (US CENTS)





STRATEGIC LOCATIONS AND MARKETS

VIETNAM

HO CHI MINH CITY

12 VSIP II-A, 24 Street,
Vietnam Singapore Industrial
Park II-A, Tan Uyen Town,
Thu Dau Mot City,
Binh Duong Province, Vietnam.

CHINA

SUZHOU

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



MALAYSIA

SENAI

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

SINGAPORE

SINGAPORE

21 Woodlands Close #09-12
Primz Bizhub
Singapore 737854



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, Dell, BenQ, Netgear, Sharp, Sony, Asus, Alcatel and Lego.



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
- Stretch Hood for Palletising

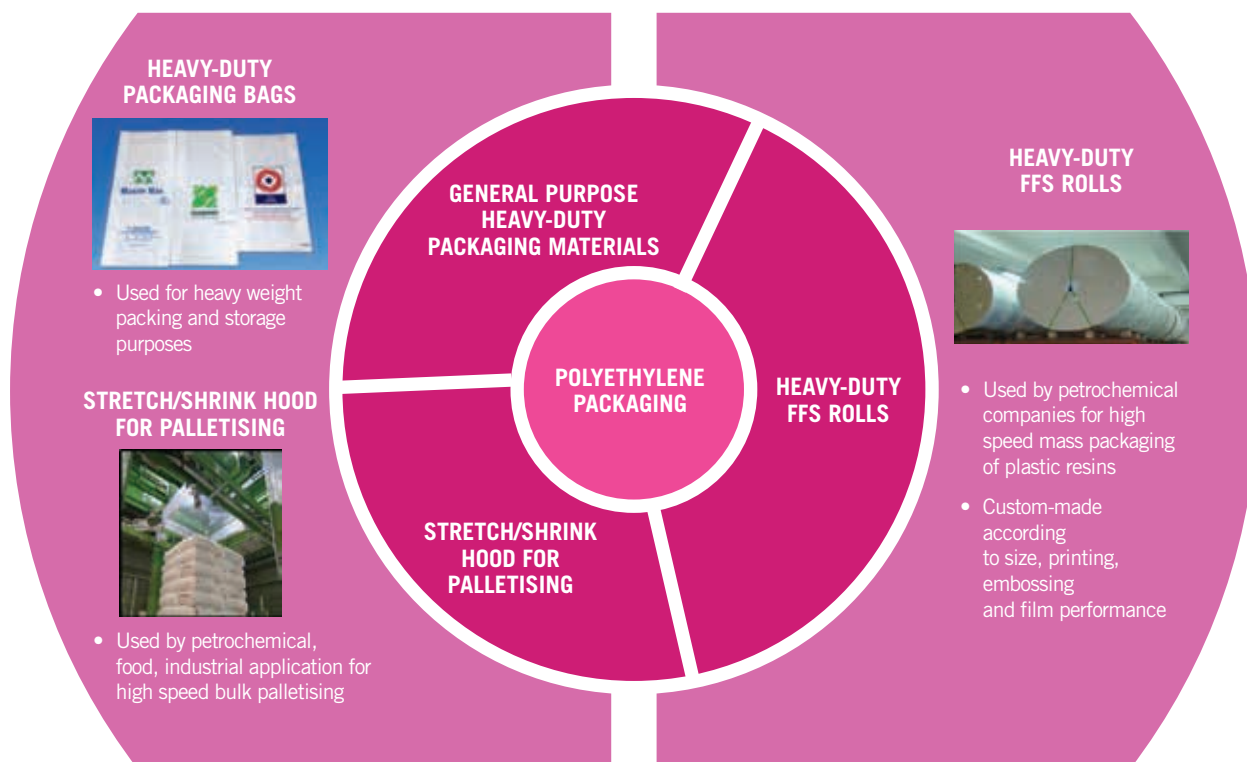
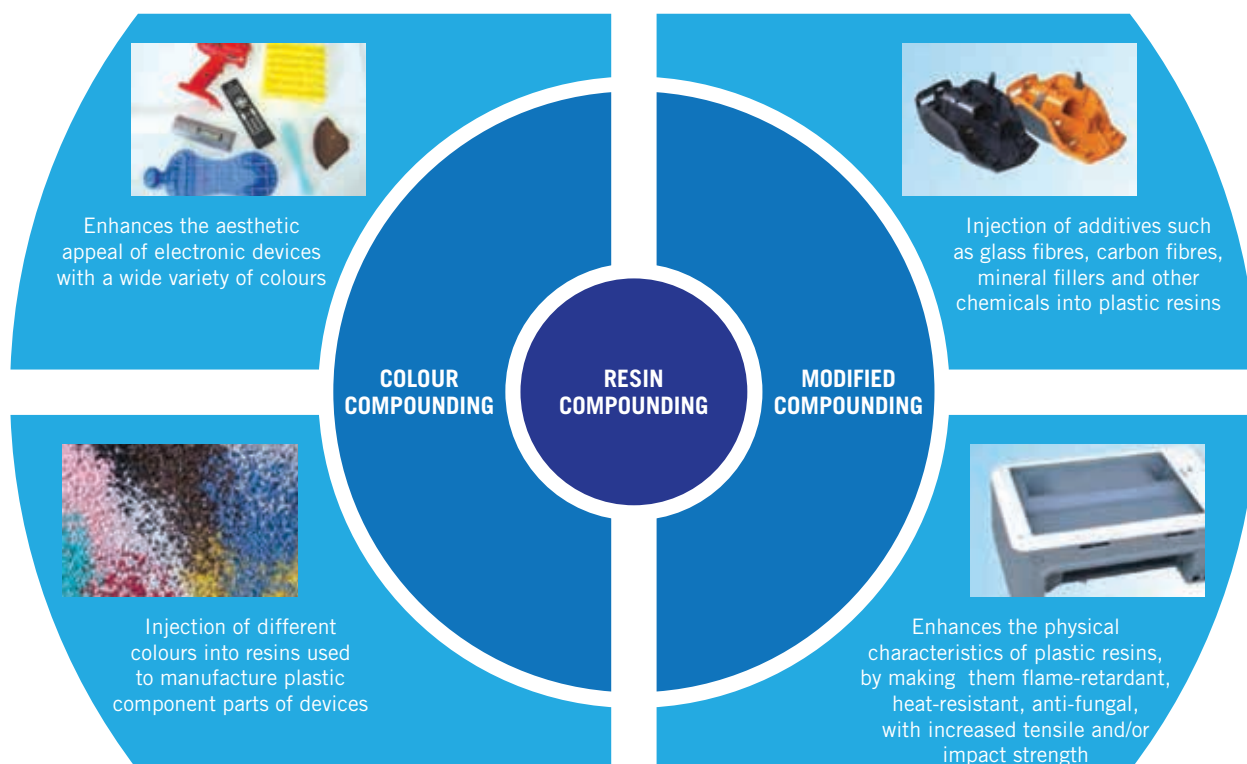
Transparent or opaque, coloured materials are available with tailored matching services.



SERVICES WE PROVIDE INCLUDE:

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





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, when he co-founded Dynamic Colours Pte Limited with Mdm Goh Seok Eng. In 1991, Mr Yeo also co-founded Dynamic Way Sdn Bhd (“Dynamic Way”) with Mdm Goh Seok Eng. 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 has more than 30 years of experience in the resin compounding industry and more than 10 years of experience in the polyethylene packaging industry.

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. She was appointed to our Board on 2 July 1993. Mdm Goh has more than 35 years of experience in the resin pigment and compounding industry, and more than 10 years of experience in the polyethylene packaging 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 and in 1986, she was awarded with an Advanced Diploma in Polymer Technology.

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

MR CHONG YEE SIEW SEBASTIAN

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

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

He began his career in 1971 with Turquand Youngs & Co (a predecessor firm of EY) 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).

Mr Chong 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 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 Fellow of CPA Australia (FCPA (Aust.)) 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 SOON BOON SIONG

Independent Director
Chairman, Nominating Committee
Member, 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, (“Partners Capital”) 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 has 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 TAN LYE HUAT

Independent Director
Chairman, Audit and Risk Committee
Member, Remuneration Committee
Member, Nominating 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 is a member of the Institute of Singapore Chartered Accountants (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 Fellow (C Dir FIoD) 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 HOON WEE TENG, WILL

Non-Executive Director

Mr Hoon Wee Teng, Will was appointed to our Board on 18 April 2016.

Prior to joining our Board, Mr Hoon served as a senior management officer of several companies. He had served as the Chief Executive Officer of Sateri. He served previously as the President of Eu Yan Sang. Mr Hoon was also the Executive Vice President of Transpac Capital. He was the Executive Chairman of Foodstar. He was the Executive Director of Hsu Fu Chi too. In addition, Mr Hoon was the Managing Director and Head of Private Equity at the Crosby Group. He had worked for Bain & Company, following his employment with the Boston Consulting Group.

Mr Hoon has extensive experience in leading operating companies, management consulting practices, and private equity businesses. He has an excellent track record of creating significant value for shareholders and investors. He has outstanding success in managing substantial organisations and funds.

Mr Hoon received his Bachelor of Science in Mathematics with Computer Science from the School of Science at the Massachusetts Institute of Technology and completed his graduate research in Computer Science at the Computer Laboratory of the University of Cambridge (Trinity College). He was elected to Sigma Xi. In addition, he had received the George B. Morgan '20 Award and the Great Dome Award. Mr Hoon is a Fellow of the Chartered Institute of Marketing.

Mr Hoon is the Chief Executive Officer of INTRACO Limited.



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 multi-national corporations and local corporations across diverse industries.

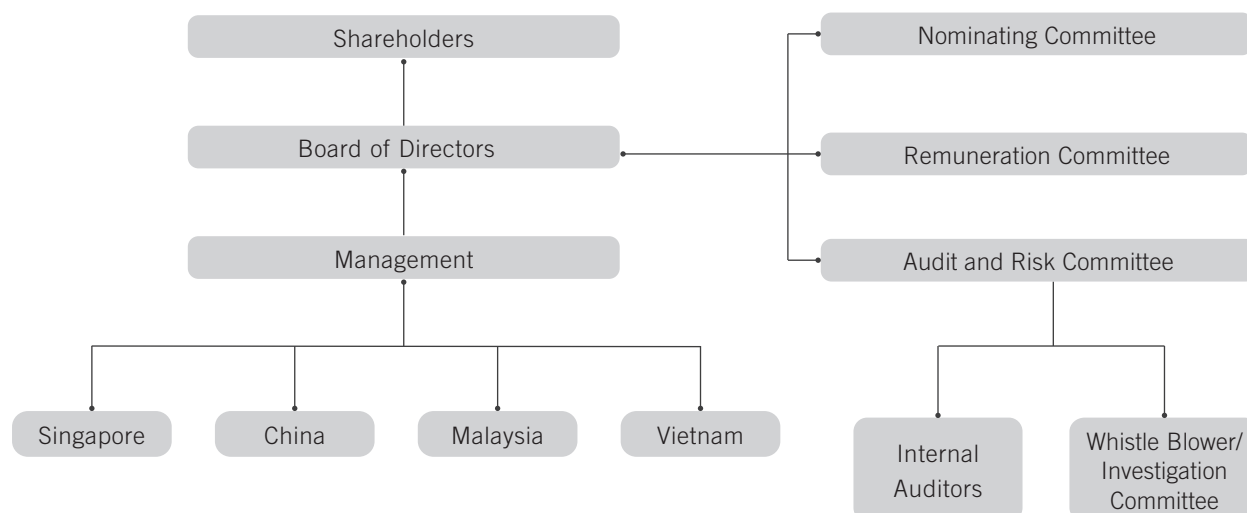
Mr Lim holds a Master of Professional Accounting Degree from the University of Southern Queensland. He is a member of the CPA Australia and the Association of International Accountants, UK.

GROUP STRUCTURE



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 and
- (h) Guideline 16.1

The Board and Management believe that commitment to good corporate governance is essential to the sustainability of the Company’s business and stakeholders’ 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.

CORPORATE GOVERNANCE REPORT

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.

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

Non-Executive Director

Mr Hoon Wee Teng, Will

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 and Risk Committee.

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

CORPORATE GOVERNANCE REPORT

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 controls 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 Constitution allows 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:–

2016 Meeting Attendance ⁽¹⁾	Board	Audit and Risk Committee	Nominating Committee	Remuneration Committee
Number of Meetings held	5	5	2	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
Chong Yee Siew Sebastian	5	5	2	1
Soon Boon Siong	5	5	2	1
Tan Lye Huat	5	5	2	1
Hoon Wee Teng, Will ⁽²⁾	3	N/A	N/A	N/A
Lim Kim Liang ⁽³⁾	2	N/A	N/A	N/A

Notes

- (1) Refers to meetings held/attended while each Director was in office.
 (2) Mr Hoon Wee Teng, Will was appointed to the Board on 18 April 2016.
 (3) Mr Lim Kim Liang retired upon the conclusion of the AGM held on 18 April 2016.
 (4) 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.

CORPORATE GOVERNANCE REPORT

Guidelines 1.6 and 1.7: Director's Appointment and Training

A formal letter of appointment is sent to newly-appointed Director upon his/her appointment stating his/her duties and obligations as Director, time commitment from the new Director to meet the expectations of his/her role, and other relevant matters. 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 recognises 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, and talks on regulatory updates organised by regulatory bodies and professional institutions such as Singapore Institute of Directors and Singapore Exchange Securities Trading Limited ("SGX-ST"). The Company has an approved budget for such on-going training for its Directors.

During the financial year 2016, 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, SGX-ST, Securities Investors Association (Singapore), Institute of Singapore Chartered Accountants and other business and financial institutions and consulting firms. Details are as follows:–

Mr Tan Lye Huat, Mr Chong Yee Siew Sebastian, Mr Soon Boon Siong and Mr Hoon Wee Teng, Will, attended the courses listed below with attendance hours totalling 109 hours:–

- ACRA-SGX-SID Audit Committee Seminar – Raising The Bar For Financial Reporting And Audit
- A Practical Guide to Corporate Secretarial Practice
- Board Guide Launch
- BizFinx Filing System
- CEO Session on Sustainability Reporting
- Corporate Governance for Independent Directors
- Corporate Governance Updates
- Derivative Products: Hedging, Speculation – Transaction Recording- Accounting Issues and Disclosure
- Director Self-assessment Tools
- Feedback Sessions on ACRA's FRSP
- Myanmar-Asia's Next Rising Star
- Political Leadership in digital age by PM of Luxembourg
- Setting Up an Effective Follow-Up
- SID – Confronting the hot spots
- SID – Cyber Security
- SID – Directors' Conference 2016
- SID – Launch of Board Guide
- SID – Launch of the Board Risk Committee Guide & ASEAN Corporate Governance Scorecard
- SID – Launch of the Remuneration Committee Guide
- SID – Launch of Singapore Directorship Report 2016
- SID – The State of Corporate Governance Disclosures in Singapore
- SID-SGX-ACRA Launch of Board Risk Guide
- SID-NUS-CPA Spore Governance & Transparency

CORPORATE GOVERNANCE REPORT

- Singapore Accountancy Convention 2016
- Sustainability Reporting Seminar
- System for Audit Reports
- State of CG in Singapore
- Why Should Enterprises Implement Traditional Culture?

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.

Definition of Independent Director:

In order to be considered to be independent for purposes of corporate governance, a Director may not, other than in his or her capacity as a member of the Board of Directors, or any other board committee—

- (i) accept any consulting, advisory, or other compensatory fee from the Group; or
- (ii) be an affiliated person of the Group or any subsidiary thereof; or
- (iii) possess an interest in any other transaction for which disclosure would be required.

No person may be appointed to the Board if he/she is already holding more than four (4) other 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 NC reviews annually the independence declarations made by the Company's Independent Directors based on the criterion of independence under the guidelines provided in the Code. For the year under review, the NC has ascertained the independence status of all three Independent Directors of the Company. The Board has also reviewed the number of years served by each Independent Director (Mr Chong Yee Siew Sebastian has served for 9 years period, both Mr Tan Lye Huat and Mr Soon Boon Siong have served for 5 years period). As Mr Chong Yee Siew Sebastian has been serving beyond 9 years in the financial year 2016, the NC together with Board (exclusive of Mr Chong Yee Siew Sebastian) performed a rigorous annual review on the independence of Mr Chong Yee Siew Sebastian, having considered his in-depth knowledge of the Group's business operations, past and continuous contributions at Board level in terms of impartial and constructive advice, the Board is of the view that there is no material conflict between his tenure and his ability to discharge his role as Independent Director.

CORPORATE GOVERNANCE REPORT

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.

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

Guidelines 2.6: Board Diversity

The Company has its Board Diversity Policy in place. The NC undertakes an annual review of the Board's balance and diversity of skills, experience, gender and knowledge of the Company and is satisfied that 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."

When a Board position becomes vacant or additional Directors are required, the NC will select and recommend candidates on the basis of their skills, experience and knowledge, taking into account the need for board diversity.

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 represent 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-three (23) 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 Chong Yee Siew Sebastian as the Lead Independent Director. Mr Chong is the Chairman of the Remuneration Committee and a member of the Audit and Risk and Nominating Committees. Mr Chong is available to shareholders when they have concerns and contact through the normal channels of the Company has failed to resolve those concerns or for which the normal channels are 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.

CORPORATE GOVERNANCE REPORT

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 those concerns or for which the normal channels are 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;

CORPORATE GOVERNANCE REPORT

- (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 organisation, 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 Constitution 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 Constitution 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. Shareholders are provided with relevant information on the candidates for election or re-election.

Mr Yeo Hock Leng is subject to retirement pursuant to the Company’s Constitution at the forthcoming AGM. The NC recommended that Mr Yeo Hock Leng be nominated for re-election at the forthcoming AGM. In making the recommendation, the NC had considered his 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.

Mr Soon Boon Siong is subject to retirement pursuant to the Company’s Constitution at the forthcoming AGM and will not be offering himself for re-appointment to office.

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.

CORPORATE GOVERNANCE REPORT

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 FY2016, 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 Constitution 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.

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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.

CORPORATE GOVERNANCE REPORT

Guideline 4.7: Key Information on Directors

Key information regarding Directors is as follows:

KEY INFORMATION ON BOARD OF DIRECTORS						
Name of Director	Directorship: (a) Date First Appointed (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 (b) 17 April 2014	Executive and Non-Independent	Executive Chairman – Board Group Managing Director	Nil	Nil	Retirement pursuant to Article 103
Madam Goh Seok Eng	(a) 2 July 1993 (b) 30 April 2015	Executive and Non-Independent	Deputy Group Managing Director and Technical Director	Nil	Nil	NA
Mr Chong Yee Siew Sebastian FCA (Singapore), FCPA Australia, MEc Syd, BAcc (Hon) Sing	(a) 24 Sep 2007 (b) 18 April 2016	Non-Executive and Lead Independent	Chairman (from 1 July 2016) and Member (up to 30 June 2016) of Remuneration Committee Member – Audit and Risk Committee and, Nominating Committee	Nil	Managing Director, Financial Info Analysis Pte Ltd	NA
Mr Soon Boon Siong BBA- University of Singapore 1972	(a) 22 April 2011 (b) 17 April 2014	Non-Executive and Independent	Chairman – Nominating Committee and Remuneration Committee (up to 30 June 2016) Member – Audit and Risk Committee and Remuneration Committee (from 1 July 2016)	Nil	1. Non-Executive and Independent Director – Tai Sin Electric Limited 2. Managing Director, Corporate Finance, Partners Capital (Singapore) Pte Ltd	Retirement pursuant to Article 103
Mr Tan Lye Huat FCA (Singapore), FCCA, C Dir FloD	(a) 23 May 2011 (b) 30 April 2015	Non-Executive and Independent	Chairman – Audit and Risk Committee Member – Nominating and Remuneration Committees	Nil	Non-Executive and Independent Director: 1. SP Corporation Limited 2. Japan Foods Holding Ltd 3. Neo Group Limited 4. Nera Telecommunications Ltd	NA
Mr Hoon Wee Teng, Will	(a) 18 April 2016 (b) –	Non-Executive and Non-Independent	Member – Board	Nil	Chief Executive Officer – Intraco Limited	NA

CORPORATE GOVERNANCE REPORT

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.

Board Performance Criteria

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

Individual Director's Performance Criteria

The individual Director's performance criteria are categorised into five segments, namely:–

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

Executive Chairman and Group Managing Director Performance Criteria

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

CORPORATE GOVERNANCE REPORT

The NC, without the engagement of an external facilitator, has performed the assessment for FY2016 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 quarterly 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 FY2016 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 Chong Yee Siew Sebastian (Chairman);
- (b) Mr Soon Boon Siong; and
- (c) Mr Tan Lye Huat.

CORPORATE GOVERNANCE REPORT

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 CEO (or executive of equivalent rank) if the CEO 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 and mix 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.

CORPORATE GOVERNANCE REPORT

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 service agreements of the Executive Directors provide that the profit sharing percentage increases in steps according to prescribed pretax profit tax thresholds, thereby incentivising them to achieve higher profits for the Company over the long term. The Company also has in place an employee share option scheme which, however, has not been implemented since it was approved by shareholders on 26 September 2007 (see Guideline 9.5 on page 28). The Company does not have any other incentive scheme for its Directors and key management personnel.

Guideline 8.3: Remuneration of Non-Executive Directors

The fees of Non-Executive Directors for FY2016 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 FY2016 to apply in FY2017 as shown in the table below.

	Proposed for FY2017			FY2016		
	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

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If these fees are approved and there is no change to the Board and Committee membership, the total fees for FY2017 will amount to S\$192,000.

Directors' fees are only payable to Non-Executive Directors. The FY2016 fees and proposed fees for FY2017 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 encourages its Non-Executive Directors to hold shares in the Company. The Board believes it is not necessary for Non-Executive Directors to hold shares in the Company so as to better align their interests with the interests of 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.

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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 and retirement benefits in FY2016.

The remuneration paid to the Directors for services rendered during FY2016 are as follows:–

Director	Remuneration (S\$'000)	Director's Fees	Salary & CPF	Bonus & Other Variable Performance Components	Total
Yeo Hock Leng	511	–	59.9%	40.1%	100%
Goh Seok Eng	409	–	62.0%	38.0%	100%
Chong Yee Siew, Sebastian	54	100%	–	–	100%
Soon Boon Siong	54	100%	–	–	100%
Tan Lye Huat	54	100%	–	–	100%
Hoon Wee Teng, Will	–	–	–	–	–
Lim Kim Liang	9	100%	–	–	100%
Total Remuneration (S\$'000)	\$1,091	\$171	\$560	\$360	\$1,091
	100%	15.7%	51.3%	33.0%	100%

* Variable Performance Components refers to profit sharing scheme per Service Agreement.

** Hoon Wee Teng, Will, CEO of Intraco Ltd, had requested to receive no payment for the S\$30,000 fee that his position as Non-Executive Director carried.

CORPORATE GOVERNANCE REPORT

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 9.3: 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	83.6%	16.4%	100%
	Pun Lay Peng	92.7%	7.3%	100%
	Xie Chunrong	85.2%	14.8%	100%
	Chong Wei Guan	84.1%	15.9%	100%
	He Fong Wei	84.4%	15.6%	100%
	Total Remuneration (S\$'000)	86.0% \$369	14.0% \$60	100% \$429

The aggregate remuneration paid to the above personnel was S\$429,000 in FY2016.

Guideline 9.4: Employee Related to Directors/CEO

For FY2016, the remuneration of an employee who is an immediate family member of a Director or the CEO whose remuneration exceeds S\$50,000 during the year is as follows:

Remuneration Band	Immediate Family Member of Director	Relationship with Director	Designation
Below S\$100,000	Grace Yeo Jia Lin	Daughter of Mr Yeo Hock Leng and Mdm Goh Seok Eng	Assistant Technical and Production Manager

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. The Scheme expires on 26 September 2017 and there are no plans for its renewal.

CORPORATE GOVERNANCE REPORT

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 26 of this Annual Report.

For key management personnel, in addition to their monthly salary, they also receive variable performance bonus. The performance bonus amount is dependent on their individual performance as measured by their respective key performance indicators, as well as the performance of the Group as a whole.

As explained in "Guideline 8.2: Long Term Incentive Scheme" on page 26 of this Annual Report, apart from the graduated increases in the profit sharing percentages for Executive Directors, the Company does not have any long-term incentive scheme for linking remuneration and performance.

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 and Risk 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 FY2016.

CORPORATE GOVERNANCE REPORT

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 a quarterly basis for 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 meetings 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

Since FY2014, the Group implemented an ERM framework to monitor its risk management capabilities. A total of 22 risks have been identified and classified under 3 categories, namely Business and Strategic Risks, Financial risks, Operational risks and 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 report 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, was introduced to ensure that the Group's risk management activities are satisfactory.

CORPORATE GOVERNANCE REPORT

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.

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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 2016.

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 have 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 2016 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.

CORPORATE GOVERNANCE REPORT

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 2016.

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.

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.

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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 five (5) 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.

CORPORATE GOVERNANCE REPORT

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 ARC 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.

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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 Auditors provided tax advisory services to the Group. A breakdown of the fees paid to the External Auditors for audit and non-audit services can be found in Note 21 page 92 of the Financial Statements in this Annual Report. The ARC reviewed and is of the view that the non-audit services in tax advisory provided by the External Auditors in FY2016 will not prejudice the objectivity and independence of the external auditors. Accordingly, the Company has complied with Listing Rule 1207(6).

The Company has complied with Rule 712 and 715 of the SGX Listing Manual in relation to its auditing firms as Messrs. BDO LLP has been appointed as the auditors of the Company, the Company's Singapore incorporated subsidiary and foreign-incorporated subsidiaries.

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.

CORPORATE GOVERNANCE REPORT

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 five (5) 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.

During the year, the ARC actively engaged with Management and Board the launch of various new regulatory initiatives such as the FRSP (Financial Reporting Standards Review), the AQI (Audit Quality Initiative), the EAR (Enhanced Auditor Report) as well as the clarification with regard to the “Comply or Explain” regime.

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 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.

CORPORATE GOVERNANCE REPORT

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.

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SHAREHOLDER RIGHTS AND RESPONSIBILITIES SHAREHOLDER RIGHTS

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, 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

The Company strongly encourages and supports Shareholders participation at all of its general meetings. All shareholders are entitled to vote in accordance with the established voting rules and procedures. The Company conducted poll voting for all resolutions tabled at the general meetings. The rules, including the voting process, were clearly explained by the scrutineers at such 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 Constitution of the Company allows each shareholder to appoint up to two (2) proxies to attend shareholders' meetings.

CORPORATE GOVERNANCE REPORT

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 an 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 general meetings. 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 concrete 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 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.

CORPORATE GOVERNANCE REPORT

Guideline 16.3: Attendees at General Meetings

At each general meeting, the Group CEO updates shareholders on the recent progress of the Company.

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

All resolutions are voted by poll to reflect shareholders' shareholding interests and for greater transparency. The poll voting results and the proxy voting results are presented to the audience and subsequently filed with the SGX-ST after the conclusion of the general meetings.

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 2016.

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. Directors of the Board are refrained from participation in board discussions and decision making process on a particular agenda when they have conflicts of interest.

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

DIRECTORS' STATEMENT

The Directors of Dynamic Colours Limited (the "Company") present their statement to the members together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the financial year ended 31 December 2016 and the statement of financial position and statement of changes in equity of the Company as at 31 December 2016.

1. Opinion of the Directors

In the opinion of the Board of Directors,

- (a) the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company together with the notes thereon are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended; 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.

2. Directors

The Directors of the Company in office at the date of this statement are as follows:

Yeo Hock Leng
Goh Seok Eng
Chong Yee Siew Sebastian
Soon Boon Siong
Tan Lye Huat
Hoon Wee Teng Will (Appointed on 18 April 2016)

3. Arrangements to enable Directors to acquire shares or debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was 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.

4. Directors' interests in shares or debentures

The Directors of the Company holding office at the end of the financial year had no interests in the shares or debentures of the Company and its related corporations as recorded in the register of directors' shareholdings kept by the Company under Section 164 of the Singapore Companies Act, Chapter 50 (the "Act"), except as follows:

Name of Directors and companies in which interests are held	Shareholdings registered in name of Director		Shareholdings in which Director is deemed to have an interest	
	At beginning of year	At end of year	At beginning of year	At end of year
The Company:				
(No. of ordinary shares)				
Yeo Hock Leng	27,839,496	27,839,496	19,056,084	20,760,684
Goh Seok Eng	19,056,084	20,760,684	27,839,496	27,839,496
Chong Yee Siew Sebastian	100,000	—	—	—

DIRECTORS' STATEMENT

4. Directors' interests in shares or debentures (Continued)

By virtue of Section 7 of the Act, Mr Yeo Hock Leng and Ms Goh Seok Eng are deemed to have interests in the shares of all the subsidiaries of the Company as at the beginning and end of the financial year. Mr Yeo Hock Leng is deemed to be interested in the shares held by his wife, Ms Goh Seok Eng, and vice versa.

In accordance with the continuing listing requirements of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Directors of the Company state that, according to the register of the Directors' shareholdings, the Directors' interests as at 21 January 2017 in the shares of the Company have not changed from those disclosed as at 31 December 2016.

5. Share options

There were no share options granted by the Company or its subsidiary corporations during the financial year.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiary corporations.

There were no unissued shares of the Company or its subsidiary corporations under option as at the end of the financial year.

6. Audit and Risk Committee

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

Tan Lye Huat (Chairman)	Non-Executive and Independent Director
Chong Yee Siew Sebastian	Non-Executive and Lead Independent Director
Soon Boon Siong	Non-Executive and Independent 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 met four times since the last Annual General Meeting ("AGM") and has carried out its functions in accordance with Section 201B(5) of the Act, including reviewing the following, where relevant, with the Executive Directors and external and internal auditors of the Company:

- (a) the audit plans of the internal and external auditors and the results of the auditors' examination and evaluation of the Group's systems of internal accounting controls;
- (b) the Company's and the Group's financial and operating results and accounting policies;
- (c) the statement of financial position and statement of changes in equity of the Company and the consolidated financial statements of the Group and external auditor's report on those financial statements before their submission to the Directors of the Company;
- (d) the half-yearly and annual announcements as well as the related press releases on the results and financial position of the Company and the Group;
- (e) the co-operation and assistance given by the management to the Company's internal and external auditors; and
- (f) the re-appointment of the external auditor of the Company.

DIRECTORS' STATEMENT

6. Audit and Risk Committee (Continued)

The Audit and Risk Committee has full access to and has the co-operation of the management and has been given the resources required for it to discharge its function properly. It also has full discretion to invite any Director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the Audit and Risk Committee.

The Audit and Risk Committee has recommended to the Board of Directors the nomination of BDO LLP for re-appointment as external auditor of the Company at the forthcoming AGM of the Company.

7. Independent auditor

The independent auditor, BDO LLP, has expressed its willingness to accept re-appointment.

On behalf of the Board of Directors

Yeo Hock Leng
Director

Goh Seok Eng
Director

Singapore
20 March 2017

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DYNAMIC COLOURS LIMITED

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Dynamic Colours Limited (the "Company") and its subsidiaries (the "Group") as set out on pages 46 to 107, which comprise:

- the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2016;
- the consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the financial year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the financial year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DYNAMIC COLOURS LIMITED

Report on the Audit of Financial Statements (Continued)

Key Audit Matters (Continued)

KEY AUDIT MATTER	AUDIT RESPONSE
1 Impairment of property, plant and equipment	
The Group's property, plant and equipment consists mainly leasehold factory buildings and plant and machinery. During the year, the Group has carried out an assessment of the recoverable amount of its property, plant and equipment in the People's Republic of China and Malaysia, in view of the following indicators of impairment that have been identified: - There was a slowdown in the demand of the Group's products from customers in the People's Republic of China, resulting in a decrease in revenue generated from this segment. - Based on a valuation exercise performed by management in 2013, the market value of the Group's land and building located in Malaysia was lower than their carrying amounts as at 31 December 2016. The management has assessed the recoverable amount of the property, plant and equipment by estimating the present value of the expected future cash flows to be derived from these assets. This assessment involves significant management judgements in making key assumptions regarding the revenue growth rate, gross profit margin and the discount rate. We have determined this area to be a key audit matter as the carrying amount of property, plant and equipment represents 41% of the Group's total assets in the consolidated statement of financial position as at 31 December 2016. Significant audit effort has also been spent in evaluating the reasonableness of the key assumptions made by management.	Our procedures included, amongst others, the following: - Evaluated the Group's impairment model against the requirements set out in FRSs. This included an assessment of the appropriateness of the composition of estimated future cash flows. - Assessed the reasonableness of the key assumptions used by management. We: Evaluated the revenue growth rate and gross profit margin by referencing to historical performance and benchmarked the discount rate against external market data. Performed sensitivity analysis to assess the impact on the recoverable amount of the property, plant and equipment by reasonable possible changes to the revenue growth rate, gross profit margin and the discount rate.
Refer to Notes 3 and 4 of the accompanying financial statements.	

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DYNAMIC COLOURS LIMITED

Report on the Audit of Financial Statements (Continued)

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Director's responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DYNAMIC COLOURS LIMITED

Report on the Audit of Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DYNAMIC COLOURS LIMITED

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 its subsidiary corporation incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Lew Wan Ming.

BDO LLP

Public Accountants and
Chartered Accountants

Singapore
20 March 2017

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

		Group		Company	
	Note	2016 US\$	2015 US\$	2016 US\$	2015 US\$
ASSETS					
Non-current assets					
Property, plant and equipment	4	16,417,545	17,011,321	–	–
Lease prepayments	5	671,627	688,318	–	–
Intangible assets	6	7,081	12,834	–	–
Investment in subsidiaries	7	–	–	9,534,111	9,534,111
Total non-current assets		17,096,253	17,712,473	9,534,111	9,534,111
Current assets					
Inventories	8	5,537,165	5,501,291	–	–
Trade and other receivables	9	8,051,074	6,794,921	18,028,472	8,197,503
Prepayments		133,987	340,002	30,802	1,355
Cash and cash equivalents	10	8,977,217	11,429,573	3,236,705	4,834,010
Total current assets		22,699,443	24,065,787	21,295,979	13,032,868
Total assets		39,795,696	41,778,260	30,830,090	22,566,979
EQUITY AND LIABILITIES					
Equity					
Share capital	11	18,822,247	18,822,247	18,822,247	18,822,247
Reserves	12	2,465,071	2,877,209	151,827	151,827
Retained earnings		11,271,348	13,085,753	3,563,801	278,301
Total equity attributable to owners of the parent		32,558,666	34,785,209	22,537,875	19,252,375
Non-current liabilities					
Finance lease payable	13	39,081	–	–	–
Deferred tax liabilities	14	922,461	1,029,807	–	–
Total non-current liabilities		961,542	1,029,807	–	–
Current liabilities					
Trade and other payables	15	5,506,739	4,572,844	8,062,181	2,345,192
Bank borrowings	16	–	969,412	–	969,412
Finance lease payable	13	10,362	–	–	–
Derivative financial instruments	17	142,034	–	142,034	–
Current income tax payable		616,353	420,988	88,000	–
Total current liabilities		6,275,488	5,963,244	8,292,215	3,314,604
Total liabilities		7,237,030	6,993,051	8,292,215	3,314,604
Total equity and liabilities		39,795,696	41,778,260	30,830,090	22,566,979

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Group	
	Note	2016 US\$	2015 US\$
Continuing operations			
Revenue	18	41,782,891	48,152,210
Cost of sales		(34,491,411)	(41,670,710)
Gross profit		7,291,480	6,481,500
Other item of income			
Other income	19	516,353	5,959,644
Other items of expense			
Distribution expenses		(908,977)	(957,819)
Administrative expenses		(2,760,891)	(2,600,891)
Other operating expenses		(216,401)	(120,047)
Net finance costs	20	(34,740)	(157,370)
Profit before tax from continuing operations	21	3,886,824	8,605,017
Income tax expense	22	(623,418)	(856,600)
Profit from continuing operations		3,263,406	7,748,417
Discontinued operation			
Loss from discontinued operation	7	–	(442,818)
Profit for the financial year		3,263,406	7,305,599
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operations		(412,138)	(375,109)
Income tax relating to items that may be reclassified		–	–
Other comprehensive income for the financial year, net of income tax		(412,138)	(375,109)
Total comprehensive income for the financial year		2,851,268	6,930,490

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Group 2016 US\$	2015 US\$
Profit attributable to:			
Owners of the parent			
– Profit from continuing operations		3,263,406	7,748,417
– Loss from discontinued operation		–	(354,164)
Non-controlling interests			
– Loss from discontinued operation		–	(88,654)
		3,263,406	7,305,599
Total comprehensive income attributable to:			
Owners of the parent			
– Profit from continuing operations		2,851,268	7,373,308
– Loss from discontinued operation		–	(354,164)
Non-controlling interests			
– Loss from discontinued operation		–	(88,654)
		2,851,268	6,930,490
Earnings per share from continuing operations attributable to owners of the parent (cents)			
Basic	23	1.55	3.69
Diluted		1.55	3.69
Loss per share from discontinued operation attributable to owners of the parent (cents)			
Basic	23	–	(0.17)
Diluted		–	(0.17)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Share capital US\$	Foreign exchange reserve US\$	Statutory reserve US\$	Share-based payment reserve US\$	Retained earnings US\$	Total equity attributable to owners of the parent US\$
Group							
Balance as at 1 January 2016		18,822,247	1,045,291	1,680,091	151,827	13,085,753	34,785,209
Profit for the financial year		–	–	–	–	3,263,406	3,263,406
Other comprehensive income:							
Exchange differences arising from translation of foreign operations		–	(412,138)	–	–	–	(412,138)
Total comprehensive income for the financial year		–	(412,138)	–	–	3,263,406	2,851,268
Transactions with owners							
Dividends	24	–	–	–	–	(5,077,811)	(5,077,811)
Balance as at 31 December 2016		<u>18,822,247</u>	<u>633,153</u>	<u>1,680,091</u>	<u>151,827</u>	<u>11,271,348</u>	<u>32,558,666</u>

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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Note	Share capital US\$	Foreign exchange reserve US\$	Statutory reserve US\$	Share-based payment reserve US\$	Retained earnings US\$	Total equity attributable to owners of the parent US\$	Non-controlling interests US\$	Total equity US\$
Group								
Balance as at 1 January 2015	18,822,247	1,420,400	1,680,091	151,827	9,142,159	31,216,724	129,714	31,346,438
Profit from continuing operations	-	-	-	-	7,748,417	7,748,417	-	7,748,417
Loss from discontinued operation	-	-	-	-	(354,164)	(354,164)	(88,654)	(442,818)
Other comprehensive income:								
Exchange differences arising from translation of foreign operations	-	(375,109)	-	-	-	(375,109)	-	(375,109)
Total comprehensive income for the financial year	-	(375,109)	-	-	7,394,253	7,019,144	(88,654)	6,930,490
Transactions with owners								
Dividends	-	-	-	-	(3,450,659)	(3,450,659)	-	(3,450,659)
Liquidation of subsidiary	-	-	-	-	-	-	(41,060)	(41,060)
Balance as at 31 December 2015	18,822,247	1,045,291	1,680,091	151,827	13,085,753	34,785,209	-	34,785,209

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Share capital US\$	Share-based payment reserve US\$	Retained earnings US\$	Total equity US\$
Company					
Balance as at 1 January 2016		18,822,247	151,827	278,301	19,252,375
Profit for the financial year, representing total comprehensive income for the financial year		–	–	8,363,311	8,363,311
Dividends	24	–	–	(5,077,811)	(5,077,811)
Balance as at 31 December 2016		<u>18,822,247</u>	<u>151,827</u>	<u>3,563,801</u>	<u>22,537,875</u>
Balance as at 1 January 2015		18,822,247	151,827	2,639,642	21,613,716
Profit for the financial year, representing total comprehensive income for the financial year		–	–	1,089,318	1,089,318
Dividends	24	–	–	(3,450,659)	(3,450,659)
Balance as at 31 December 2015		<u>18,822,247</u>	<u>151,827</u>	<u>278,301</u>	<u>19,252,375</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Group 2016 US\$	2015 US\$
Cash flows from operating activities			
Profit before income tax from continuing operations		3,886,824	8,605,017
Loss before income tax from discontinued operation		–	(441,648)
Profit before income tax, total		3,886,824	8,163,369
Adjustments for:			
Write back for inventory obsolescence		(103,594)	(300,393)
Write down of inventories to net realisable value		11,626	–
Depreciation of property, plant and equipment		1,470,916	1,463,245
Amortisation of lease prepayments		21,625	21,088
Amortisation of intangible assets		5,753	6,731
Interest expense		40,538	128,035
Interest income		(42,084)	(3,148)
Gain on disposal of property, plant and equipment		(49,710)	(4,944,259)
Property, plant and equipment written off		651,006	223,883
Net change in fair value of forward exchange contracts		142,034	–
Operating cash flows before working capital changes		6,034,934	4,758,551
Changes in working capital:			
Inventories		56,094	1,921,603
Trade and other receivables		(1,256,153)	4,827,457
Prepayments		206,015	1,188,808
Trade and other payables		337,024	(1,490,385)
Deposit refunded/(pledged)		5,549	(104,516)
Cash generated from operations		5,383,463	11,101,518
Income tax paid		(535,399)	(174,149)
Net cash from operating activities		4,848,064	10,927,369
Cash flows from investing activities			
Acquisition of property, plant and equipment and lease prepayments		(1,575,317)	(4,071,738)
Interest received		42,084	3,148
Proceeds from disposal of property, plant and equipment		52,025	7,448,018
Net cash impact on liquidation of a subsidiary	7	–	(41,060)
Net cash (used in)/from investing activities		(1,481,208)	3,338,368

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Group 2016 US\$	2015 US\$
Cash flows from financing activities			
Dividends paid		(5,077,811)	(3,450,659)
Interest paid		(40,538)	(128,035)
Repayment of finance lease payable		(7,472)	–
Proceeds from short-term loans		4,970,675	969,412
Repayment of short-term loans		(5,940,087)	(4,837,763)
Proceeds from trust receipts		4,061,456	11,159,280
Repayment of trust receipts		(3,464,585)	(15,854,293)
Net cash used in financing activities		(5,498,362)	(12,142,058)
Net (decrease)/increase in cash and cash equivalents		(2,131,506)	2,123,679
Cash and cash equivalents at beginning of financial year		11,251,125	9,281,077
Effect of foreign exchange rate changes on cash and cash equivalents		(315,301)	(153,631)
Cash and cash equivalents at end of financial year	10	8,804,318	11,251,125

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General

Dynamic Colours Limited (the “Company”) (Registration Number 199304233Z) is incorporated and domiciled in the Republic of Singapore with its registered office and principal place of business at 21 Woodlands Close #09-12 Singapore 737854. The Company is listed on the Main Board of the Singapore Exchange Securities Trading Limited (“SGX-ST”).

The principal activity of the Company is that of investment holding and is involved in the sale of plastic resins and polyethylene packaging materials.

The principal activities of the subsidiaries are disclosed in Note 7 to the financial statements.

The statement of financial position and statement of changes in equity of the Company and the consolidated financial statements of the Company and its subsidiaries (the “Group”) for the financial year ended 31 December 2016 were authorised for issue in accordance with a Directors’ resolution dated 20 March 2017.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards (“FRS”) including related interpretations of FRS (“INT FRS”) and are prepared under the historical cost convention, except as disclosed in the accounting policies below.

Singapore-incorporated companies listed on SGX-ST will be required to apply a new financial reporting framework identical to the International Financial Reporting Standards (“IFRS”) for annual periods beginning on or after 1 January 2018. The Group will adopt the new framework on 1 January 2018.

The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are presented in United States dollar (“US\$”) which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

The preparation of financial statements in compliance with FRS requires management to make judgements, estimates and assumptions that affect the Group’s application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from those estimates. The areas where such judgements or estimates have significant effect on the financial statements are disclosed in Note 3.

In the current financial year, the Group has adopted all the new and revised FRS and Interpretation of Financial Reporting Standards (“INT FRS”) that are relevant to its operations and effective for the current financial year. The adoption of these new/revised FRS and INT FRS did not result in changes to the Group’s accounting policies and had no material effect on the amounts reported for the current or prior years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

FRS and INT FRS issued but not yet effective

As at the date of the authorisation of these financial statements, the Group has not adopted the following FRS and INT FRS that have been issued but not yet effective:

		Effective date (annual periods beginning on or after)
FRS 7 (Amendments)	: FRS 7 – Disclosure Initiative	1 January 2017
FRS 12 (Amendments)	: FRS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
FRS 40 (Amendments)	: Transfer of Investment Property	1 January 2018
FRS 102 (Amendments)	: Classification and Measurement of Share-based Payment Transactions	1 January 2018
FRS 104 (Amendments)	: Applying FRS 109 <i>Financial Instruments</i> with FRS 104 <i>Insurance Contracts</i>	1 January 2018
FRS 109	: Financial Instruments	1 January 2018
FRS 110 and FRS 28 (Amendments)	: FRS 110 and FRS 28 – Sale or Contributions of Assets between an Investor and its Associate or Joint Venture	To be determined
FRS 115	: Revenue from Contracts with Customers	1 January 2018
FRS 115 (Amendments)	: Clarifications to FRS 115 Revenue from Contracts with Customers	1 January 2018
FRS 116	: Leases	1 January 2019
Improvements to FRSs (December 2016)		
– FRS 28	: Investments in Associates and Joint Ventures	1 January 2018
– FRS 112 (Amendments)	: Disclosure of Interests in Other Entities	1 January 2017
INT FRS 122	: Foreign Currency Transactions and Advance Consideration	1 January 2018

Consequential amendments were also made to various standards as a result of these new/revised standards.

Except as disclosed below, management anticipates that the adoption of the above FRS and INT FRS in future periods, if applicable, will not have a material impact on the financial statements of the Group and the Company in the period of their initial adoption.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

FRS and INT FRS issued but not yet effective (Continued)

Adoption of IFRS-identical financial reporting standards

Singapore-incorporated companies listed on SGX-ST are required to apply a new financial reporting framework identical to IFRS in 2018. The Group will adopt the new framework on 1 January 2018 and will apply the equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to the transition. This will involve restating the comparatives for the financial year ended 31 December 2017 and the opening statements of financial position as at 1 January 2017 in accordance with the new framework. The Group is in the process of assessing the impact of transition, including the impact from the adoption of IFRS 9 and IFRS 15 which is expected to be similar to the impact of FRS 109 and FRS 115 respectively disclosed below, as well as other transitional adjustments that may be required or elected under IFRS 1.

FRS 7 (Amendments) Disclosure Initiative

The amendments require additional disclosures to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group will adopt these amendments in the financial year beginning on 1 January 2017 and will include the additional disclosures in its financial statements for that financial year.

FRS 109 Financial Instruments

FRS 109 supersedes FRS 39 *Financial Instruments: Recognition and Measurement* with new requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

Under FRS 109, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for certain equity investments, for which the Group can elect to recognise the gains and losses in other comprehensive income. Debt instruments that meet the Solely Payments of Principal and Interest contractual cash flow characteristics test and where the Group is holding the debt instrument to both collect the contractual cash flows and to sell the financial assets can also be measured at fair value through other comprehensive income.

FRS 109 carries forward the recognition, classification and measurement requirements for financial liabilities from FRS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, FRS 109 retains the requirements in FRS 39 for de-recognition of financial assets and financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

FRS and INT FRS issued but not yet effective (Continued)

FRS 109 Financial Instruments (Continued)

Classification and measurement (Continued)

The Group has completed its preliminary assessment of the classification and measurement of its financial assets and financial liabilities and does not expect any significant changes to the classification and measurement of its financial assets and liabilities currently measured at amortised cost and fair value through profit or loss upon adoption of the standard.

Impairment

FRS 109 introduces a new forward-looking impairment model based on expected credit losses to replace the incurred loss model in FRS 39. This determines the recognition of impairment loss allowances as well as interest revenue. For financial assets at amortised cost or debt instruments at fair value through other comprehensive income, the Group will now always recognise (at a minimum) 12 months of expected losses in profit or loss. Lifetime expected losses will be recognised on these assets when there is a significant increase in credit risk after initial recognition under the three-stage model or from initial recognition if the simplified model is applied.

The new impairment requirements are expected to result in changes to and likely increases in impairment loss allowances on trade receivables and other receivables, due to earlier recognition of credit losses. The Group expects to adopt the simplified model for its trade receivables and will record an allowance for lifetime expected losses from initial recognition. For other receivables, the Group will initially provide for 12 months expected losses under the three-stage model. The Group is still in the process of determining how it will estimate expected credit losses and the sources of forward-looking data.

Transition

The Group plans to adopt FRS 109 in the financial year beginning on 1 January 2018 with retrospective effect in accordance with the transitional provisions and intends to elect not to restate comparatives for the previous financial year.

FRS 109 also requires additional financial statements disclosures which the Group will include in its financial statements in the financial year when FRS 109 is adopted.

FRS 115 Revenue from Contracts with Customers

FRS 115 introduces a comprehensive model that applies to revenue from contracts with customers and supersedes all existing revenue recognition requirements under FRS. The model features a five-step analysis to determine whether, how much and when revenue is recognised, and two approaches for recognising revenue: at a point in time or over time. The core principle is that an entity recognises revenue when control over promised goods or services is transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FRS 115 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

FRS and INT FRS issued but not yet effective (Continued)

FRS 115 Revenue from Contracts with Customers (Continued)

The Group has performed a preliminary assessment of its revenue from the sale of compounded resins and polyethylene packaging materials, and resins toll compounding services.

Under FRS 115, the Group expects to recognise revenue from sale of compounded resins and polyethylene packaging materials at a point in time when the finished goods have been delivered to its customers. Recognise revenue from resins toll compounding services is at a point in time when the finished goods from resins toll compounding services have been delivered to the customers or collected by the customers, where applicable.

However, the Group is still in the process of making its detailed assessment on the potential impact of FRS 115 in relation to contract modifications, rebates and discounts. On adoption of FRS 115, the Group will elect to apply the practical expedient on contract modifications.

The Group plans to adopt FRS 115 in the financial year beginning on 1 January 2018 using the full retrospective method in accordance with the transitional provisions, and will include the required additional disclosures in its financial statements for that financial year.

FRS 116 Leases

FRS 116 supersedes FRS 17 *Leases* and introduces a new single lessee accounting model which eliminates the current distinction between operating and finance leases for lessees. FRS 116 requires lessees to capitalise all leases on the statement of financial position by recognising a 'right-of-use' asset and a corresponding lease liability for the present value of the obligation to make lease payments, except for certain short-term leases and leases of low-value assets. Subsequently, the lease assets will be depreciated and the lease liabilities will be measured at amortised cost.

From the perspective of a lessor, the classification and accounting for operating and finance leases remains substantially unchanged under FRS 116. FRS 116 also requires enhanced disclosures by both lessees and lessors.

On initial adoption of FRS 116, there may be a potentially significant impact on the accounting treatment for leases, which the Group as lessee currently accounts for as operating leases. On adoption of FRS 116, the Group will be required to capitalise its rented office premises and other operating facilities on the statement of financial position by recognising them as 'right-of-use' assets and their corresponding lease liabilities for the present value of future lease payments. The Group plans to adopt the standard in the financial year beginning on 1 January 2019 using the modified retrospective method in accordance with the transitional provisions, and will include the required additional disclosures in its financial statements for that financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are entities over which the Group has control. The Group controls an investee if the Group has power over the investee, exposure to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Subsidiaries are consolidated from the date on which control is obtained by the Group up to the effective date on which control is lost, as appropriate.

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated on consolidation. Unrealised losses may be an impairment indicator of the asset concerned.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by other members of the Group.

Non-controlling interests in subsidiaries relate to the equity in subsidiaries which is not attributable directly or indirectly to the owners of the parent. They are shown separately in the statements of comprehensive income, financial position and changes in equity.

Non-controlling interests in the acquiree that are a present ownership interest and entitle its holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value, of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.2 Basis of consolidation (Continued)

When the Group loses control of a subsidiary it derecognises the assets and liabilities of the subsidiary and any non-controlling interest. The profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the separate financial statements of the Company, investment in subsidiaries are carried at cost, less any impairment loss that has been recognised in profit or loss.

2.3 Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The consideration transferred for the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. Consideration also includes the fair value of any contingent consideration. Contingent consideration classified as financial liability is remeasured subsequently to fair value through profit or loss.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 are recognised at their fair values at the acquisition date.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

Goodwill arising on acquisition is recognised as an asset at the acquisition date and initially measured at cost, being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer previously held equity interest (if any) in the entity over net acquisition-date fair value amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.4 Property, plant and equipment

All items of property, plant and equipment are initially recognised at cost. The cost includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Dismantlement, removal or restoration costs are included as part of the cost if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the property, plant and equipment.

Subsequent expenditure on an item of property, plant and equipment is added to the carrying amount of the item if it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other costs of servicing are recognised in profit or loss when incurred.

Property, plant and equipment are subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation is calculated using the straight-line method to allocate the depreciable amounts of the property, plant and equipment over their estimated useful lives.

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

Leasehold factory buildings	15 to 60 years
Plant and machinery	3 to 15 years
Motor vehicles	5 years
Furniture, fittings and equipment	5 to 10 years
Renovation	3 years

No depreciation is provided for, in respect of construction-in-progress until it is substantially completed and ready for its intended use. Cost comprises direct costs of construction and purchase cost of the plant and machinery. Capitalisation of these costs ceases and the construction-in-progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed.

The estimated useful lives, residual values and depreciation methods are reviewed, and adjusted as appropriate, at the end of each financial year.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.5 Lease prepayments

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

2.6 Intangible assets

Computer software

Acquired computer software are initially capitalised at cost which includes the purchase price (net of any discounts and rebates) and other directly attributable costs. Direct expenditure which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured is added to the original cost of the software. Costs associated with maintaining computer software are recognised as an expense as incurred.

Computer softwares are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over their estimated useful lives of 3 to 5 years.

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2.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.8 Impairment of non-financial assets

At the end of each financial year, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.8 Impairment of non-financial assets (Continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.9 Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when the Group becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest income or expense over the relevant period. The effective interest rate exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial instrument. Income and expense are recognised on an effective interest basis for debt instruments other than those financial instruments at fair value through profit or loss.

Financial assets

All financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The Group classifies its financial assets as loans and receivables. The classification depends on the nature and purpose for which these financial assets were acquired and is determined at the time of initial recognition.

Loans and receivables

Non-derivative financial assets which have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost, using the effective interest method, less impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Group's and the Company's loans and receivables in the statements of financial position comprise trade and other receivables and cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.9 Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of each financial year. Financial assets are impaired where there is objective evidence that the estimated future cash flows of the assets have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amounts of all financial assets are reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition, any difference between the carrying amount and the sum of proceeds received and amounts previously recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs. The Group classifies ordinary shares as equity instruments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.9 Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities

The Group classifies its financial liabilities as other financial liabilities.

Other financial liabilities

Trade and other payables

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, where applicable, using the effective interest method, with interest expense recognised on an effective yield basis.

Bank borrowings

Interest-bearing bank borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Financial guarantee contracts

The Company has issued corporate guarantees to banks for borrowings of certain subsidiaries and these guarantees qualify as financial guarantees because the Company is required to reimburse the banks if these subsidiaries breach any repayment term.

Financial guarantee contract liabilities are measured initially at their fair values, net of transaction costs. Subsequent to initial recognition, financial guarantees are recognised as income in profit or loss over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to profit or loss.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount and the consideration paid is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.9 Financial instruments (Continued)

Derivatives financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts.

Derivatives are initially recognised at their fair values at the date the derivative contract is entered into and are subsequently re-measured to their fair values at the end of each financial year. The method of recognising the resulting gain or loss depends on whether the derivative is designated and effective as a hedging instrument, and if so, the nature of the item being hedged. The Group has not designated any of its derivatives as hedging instruments in the current or previous financial year.

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.10 Cash and cash equivalents

Cash and cash equivalents in the statements of financial position comprise cash on hand, bank balances and short-term deposits with maturities within one year and subject to insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise of cash on hand, cash at bank and fixed deposits, net of fixed deposits pledged.

2.11 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the asset's previous carrying amount and fair value less costs to sell. The assets are not depreciated or amortised while classified as held for sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.11 Non-current assets (or disposal groups) held for sale and discontinued operations (Continued)

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

- (a) represents a separate major line of business or geographical area of operations;
- (b) is part of a single co-ordinated plan to dispose of a separate major line or geographical area of operations; or
- (c) is a subsidiary acquired exclusively with a view to resale.

2.12 Leases

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased assets to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are capitalised as property, plant and equipment of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease payables. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss, unless they are directly attributable to the acquisition, construction or production of qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Operating leases

Group as lessee of operating leases

Rentals payable under operating leases (net of any incentives received from lessors) are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Group as lessor of operating leases

Leases where the Group retains substantially all risks and rewards incidental to the ownership are classified as operating leases.

Rental income from operating leases (net of any incentives given to lessee) is recognised in profit or loss on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the financial year, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. The increase in the provision due to the passage of time is recognised in the statement of comprehensive income as finance expense.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

2.14 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is presented net of estimated customer returns, rebates, other similar allowances and sales related taxes.

Sale of goods

Revenue from the sale of goods is recognised when the Group has transferred to the customer the significant risks and rewards of ownership of the goods and it is probable that the agreed consideration will be received. Normally these criteria are considered to be met when the goods are delivered to and accepted by the customer. The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement.

Interest Income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest method.

Dividend income

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

Rental income

Rental income from subleased property is recognised on a straight-line basis over the term of the relevant lease.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.15 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the statements of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalment.

2.16 Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated undiscounted liability for annual leave expected to be settled wholly within 12 months from the reporting date as a result of services rendered by employees up to the end of the financial year.

2.17 Retirement benefit costs

Payments to defined contribution plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution plan.

2.18 Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred using the effective interest method.

2.19 Taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the financial year. Taxable profit differs from profit reported as profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is recognised at the amount expected to be paid or recovered from the taxation authorities and is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and its subsidiaries operate by the end of the financial year.

Current income taxes are recognised in profit or loss, except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.19 Taxes (Continued)

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each financial year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the financial year.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the group expects to recover or settle its assets and liabilities, except for investment properties at fair value which are presumed to be recovered through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is recognised in profit or loss, except when it relates to items recognised outside profit or loss, in which case the tax is also recognised either in other comprehensive income or directly in equity, or where it arises from the initial accounting for a business combination.

Sales tax

Revenue, expenses and assets are recognised net of the amount of sales tax except:

- when the sales taxation that is incurred on purchase of assets or services is not recoverable from the taxation authorities, in which case the sales tax is recognised as part of cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (Continued)

2.20 Dividends

Equity dividends are recognised when they become legally payable. Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which dividends are approved by shareholders.

2.21 Foreign currency transactions and translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each financial year, monetary items denominated in foreign currencies are retranslated at the rates prevailing as of the end of the financial year. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the financial year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the financial year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in United States dollar using exchange rates prevailing at the end of the financial year. Income and expense items (including comparatives) are translated at the average exchange rates for the financial year, unless exchange rates fluctuated significantly during that financial year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, are recognised initially in other comprehensive income and accumulated in the Group's foreign exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are taken to the foreign exchange reserve.

On disposal of a foreign operation, the accumulated foreign exchange reserve relating to that operation is reclassified to profit or loss.

2.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group of executive Directors and the chief executive officer who make strategic decisions.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, management made judgements, estimates and assumptions about the carrying amounts of assets and liabilities that were not readily apparent from other sources. The estimates and associated assumptions were based on historical experience and other factors that were considered to be reasonable under the circumstances. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3.1 Critical judgements made in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations (see below) that management has made in the process of applying the Group's accounting policies and which have a significant effect on the amounts recognised in the financial statements.

(i) *Allowance for impairment of trade and other receivables*

The policy for impairment of receivables of the Group is based on the ageing analysis and management's ongoing evaluation of the recoverability of the outstanding receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the assessment of the creditworthiness and the past collection history of each customer. If the financial conditions of the customers were to deteriorate, resulting in impairment of their ability to make the required payments, allowances may be required.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty as at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and reported amounts of revenues and expenses within the next financial year, are discussed below.

(i) *Allowance for inventory obsolescence*

Inventories are stated at the lower of cost and net realisable value. Management primarily determines cost of inventories using the weighted average method. Management estimates the net realisable value of inventories based on assessment of receipt or committed sales prices and provide for excess and obsolete inventories based on historical, estimated future demand and related pricing. In determining excess quantities, management considers inventory forecast uncertainty, recent sales activities, related margin and market positioning of the products. However, factors beyond its control, such as demand levels and pricing competition, could change from period to period. Such factors may require the Group to reduce the value of its inventories. The carrying amount of the Group's inventories as at 31 December 2016 was US\$5,537,165 (2015: US\$5,501,291) (Note 8).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

3. Critical accounting judgements and key sources of estimation uncertainty (Continued)

3.2 Key sources of estimation uncertainty (Continued)

(ii) *Impairment of property, plant and equipment*

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

The recoverable amount of property, plant and equipment are determined by estimating the present value of the expected future cash flows to be derived from the property, plant and equipment.

This value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit based on certain key assumptions regarding the revenue growth rate, gross profit margin and a suitable discount rate in order to calculate present value. The carrying amount of the Group's property, plant and equipment as at 31 December 2016 were US\$16,417,545 (2015: US\$17,011,321) (Note 4).

(iii) *Provision for income taxes*

The Group has exposures to income taxes in numerous jurisdictions. Significant judgement is involved in determining the Group's and the Company's provision for income taxes. The Group and the Company recognise liabilities of expected tax issues based on their best estimates of the likely taxes due, which requires significant estimation as to the ultimate tax determination of certain items. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will have an impact on income tax and deferred tax provisions in the financial year when such determination is made. The carrying amount of the Group's deferred tax liabilities and current income tax payable as at 31 December 2016 were US\$922,461 (2015: US\$1,029,807) (Note 14) and US\$616,353 (2015: US\$420,988) respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

4. Property, plant and equipment

	Leasehold factory buildings US\$	Plant and machinery US\$	Motor vehicles US\$	Furniture, fittings and equipment US\$	Renovation US\$	Assets under construction US\$	Total US\$
Group							
Cost							
Balance at							
1 January 2016	9,269,042	12,345,991	493,230	1,045,882	125,687	1,425,755	24,705,587
Additions	–	217,500	235,053	49,385	1,918	1,128,376	1,632,232
Disposals	–	(4,000)	(115,883)	(4,437)	–	–	(124,320)
Written-off	(813,933)	(1,021,256)	–	(52,791)	–	–	(1,887,980)
Transfer	875,141	1,529,824	–	–	–	(2,404,965)	–
Exchange differences	(146,674)	(28,969)	(4,362)	(26,171)	–	(12,307)	(218,483)
Balance at							
31 December 2016	9,183,576	13,039,090	608,038	1,011,868	127,605	136,859	24,107,036
Balance at							
1 January 2015	12,923,663	11,498,407	479,444	1,670,309	–	465,420	27,037,243
Additions	111,747	1,662,322	208,947	92,455	125,687	1,470,580	3,671,738
Disposals	(3,679,218)	(634,903)	(189,887)	(682,935)	–	(262,205)	(5,449,148)
Written-off	–	(301,929)	–	–	–	–	(301,929)
Transfer	90,209	157,831	–	–	–	(248,040)	–
Exchange differences	(177,359)	(35,737)	(5,274)	(33,947)	–	–	(252,317)
Balance at							
31 December 2015	9,269,042	12,345,991	493,230	1,045,882	125,687	1,425,755	24,705,587

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

4. Property, plant and equipment (Continued)

	Leasehold factory buildings US\$	Plant and machinery US\$	Motor vehicles US\$	Furniture, fittings and equipment US\$	Renovation US\$	Assets under construction US\$	Total US\$
Group							
Accumulated depreciation and impairment losses							
Balance at							
1 January 2016	1,889,280	4,499,087	353,957	950,092	1,850	–	7,694,266
Depreciation	272,008	1,043,880	76,634	47,023	31,371	–	1,470,916
Disposals	–	(2,967)	(115,883)	(3,155)	–	–	(122,005)
Written-off	(493,509)	(697,829)	–	(45,636)	–	–	(1,236,974)
Exchange differences	(63,990)	(25,381)	(3,838)	(23,503)	–	–	(116,712)
Balance at							
31 December 2016	1,603,789	4,816,790	310,870	924,821	33,221	–	7,689,491
Balance at							
1 January 2015	3,932,339	3,653,921	474,684	1,219,347	–	–	9,280,291
Depreciation	346,908	989,897	29,694	94,896	1,850	–	1,463,245
Disposals	(2,375,361)	(62,552)	(149,585)	(357,891)	–	–	(2,945,389)
Written-off	–	(78,046)	–	–	–	–	(78,046)
Exchange differences	(14,606)	(4,133)	(836)	(6,260)	–	–	(25,835)
Balance at							
31 December 2015	1,889,280	4,499,087	353,957	950,092	1,850	–	7,694,266
Carrying amount							
Balance at							
31 December 2016	7,579,787	8,222,300	297,168	87,047	94,384	136,859	16,417,545
Balance at							
31 December 2015	7,379,762	7,846,904	139,273	95,790	123,837	1,425,755	17,011,321

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

4. Property, plant and equipment (Continued)

For the purpose of consolidated statement of cash flows, the Group's addition to property, plant and equipment were financed as follows:

	2016 US\$	2015 US\$
Additions of property, plant and equipment	1,632,232	3,671,738
Less:		
Motor vehicle acquired under finance lease payable	(56,915)	–
Cash payment to acquire property, plant and equipment	1,575,317	3,671,738

As at 31 December 2016, the carrying amount of the Group's motor vehicle which was acquired under finance lease arrangements was US\$128,652. Finance leased assets were pledge as security for the finance lease payable (Note 13).

In prior year, the assets under construction represent new machines in Malaysia and the construction of a new factory in Vietnam which were not ready for use at the end of the previous reporting period.

During the current financial year, the assets under construction represent construction of equipment in Malaysia and Vietnam which are not ready for use at the end of the reporting period.

	Motor vehicles US\$	Furniture, fittings and equipment US\$	Total US\$
Company			
Cost			
Balance at 1 January 2016 and 31 December 2016	–	8,927	8,927
Balance at 1 January 2015	35,342	8,927	44,269
Disposals	(35,342)	–	(35,342)
Balance at 31 December 2015	–	8,927	8,927
Accumulated depreciation			
Balance at 1 January 2016 and 31 December 2016	–	8,927	8,927
Balance at 1 January 2015	35,342	8,927	44,269
Disposals	(35,342)	–	(35,342)
Balance at 31 December 2015	–	8,927	8,927
Carrying amount			
Balance at 31 December 2016	–	–	–
Balance at 31 December 2015	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

5. Lease prepayments

	Group US\$
Cost	
Balance at 1 January 2016	829,518
Exchange differences	(534)
Balance at 31 December 2016	<u>828,984</u>
Balance at 1 January 2015	441,813
Addition	400,000
Exchange differences	(12,295)
Balance at 31 December 2015	<u>829,518</u>
Accumulated amortisation	
Balance at 1 January 2016	141,200
Amortisation	21,625
Exchange differences	(5,468)
Balance at 31 December 2016	<u>157,357</u>
Balance at 1 January 2015	137,411
Amortisation	21,088
Exchange differences	(17,299)
Balance at 31 December 2015	<u>141,200</u>
Carrying amount	
Balance at 31 December 2016	<u>671,627</u>
Balance at 31 December 2015	<u>688,318</u>

The lease prepayments represent land use rights held by subsidiaries in the People's Republic of China and Vietnam.

As at 31 December 2016, the remaining amortisation period of the land use rights is between 29 to 42 years (2015: 30 to 43 years). None of the leases include contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

6. Intangible assets

	Computer software US\$
Group	
Cost	
Balance at 1 January 2016	158,437
Exchange differences	921
Balance at 31 December 2016	159,358
Balance at 1 January 2015	157,782
Exchange differences	655
Balance at 31 December 2015	158,437
Accumulated amortisation	
Balance at 1 January 2016	145,603
Amortisation	5,753
Exchange differences	921
Balance at 31 December 2016	152,277
Balance at 1 January 2015	138,217
Amortisation	6,731
Exchange differences	655
Balance at 31 December 2015	145,603
Carrying amount	
Balance at 31 December 2016	7,081
Balance at 31 December 2015	12,834

7. Investment in subsidiaries

	Company	
	2016 US\$	2015 US\$
Unquoted equity shares, at cost	11,784,111	11,784,111
Allowance for impairment loss	(2,250,000)	(2,250,000)
	9,534,111	9,534,111

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

7. Investment in subsidiaries (Continued)

Movement in allowance for impairment loss is as follows:

	Company	
	2016 US\$	2015 US\$
Balance at beginning of financial year	2,250,000	2,554,108
Reversal of allowance during the financial year	–	(304,108)
Balance at end of financial year	2,250,000	2,250,000

In prior year, the Group carried out a review of the recoverable amount of the investment in subsidiaries. A reversal of an allowance for impairment loss of US\$304,108 was recognised relating to the investment in Huiye Polymer (M) Sdn. Bhd. following an increase in business activities that resulted in an increase in the projected value in use of this investment. The recoverable amount of the investment of US\$17,400,000 had been determined on the basis of its value in use. The discount rate used in measuring the value in use was 8.4%.

The details of the subsidiaries are as follows:

Name of subsidiaries (Country of incorporation and principal place of business)	Principal activities	Proportion of ownership interest held by the Group	
		2016 %	2015 %
S.L. Packaging Industries Pte. Ltd. ⁽¹⁾ (Singapore)	Sale of polyethylene packaging materials	100	100
Suzhou Huiye Chemical & Light Industry Co., Ltd. ⁽²⁾ (People's Republic of China)	Manufacture and sale of compounded resins and toll compounding services	100	100
Suzhou Huiye Plastic Industry Co., Ltd. ⁽²⁾ (People's Republic of China)	Manufacture and sale of compounded resins and toll compounding services	100	100
Huiye Polymer (M) Sdn. Bhd. ⁽²⁾ (Malaysia)	Manufacture and sale of compounded resins, toll compounding services and manufacture and sale of polyethylene packaging materials	100	100
Huiye (Vietnam) Plastic Co., Ltd. ⁽²⁾ (Vietnam)	Manufacture and sale of compounded resins and toll compounding services	100	100
DCQ Plastic Industry Co., Ltd. ⁽³⁾ (Vietnam)	Ceased operations	–	–

(1) Audited by BDO LLP, Singapore.

(2) Audited by overseas member firms of the BDO network in the respective countries.

(3) The Company ceased its operations and commenced liquidation process in prior year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

7. Investment in subsidiaries (Continued)

Non-controlling interest ("NCI")

Summarised financial information in relation to DCQ Plastic Industry Co., Ltd. that has a non-controlling interests that was material to the Group, before intra-group eliminations, was presented below:

	2015 US\$
Revenue	1,778,236
Loss for the financial year	(442,818)
Total comprehensive income	(442,818)
Loss allocated to non-controlling interests	(88,654)
Total comprehensive income allocated to non-controlling interests	(88,654)
Cash flows used in operating activities	(481,956)
Cash flows from investing activities	325,308
Cash outflows	(156,648)
Current assets	219,370
Current liabilities	(5,445)
Net assets	213,925
Net assets attributable to NCI	42,785

Liquidation of a subsidiary and discontinued operation

In prior year, DCQ Plastic Industry Co., Ltd., whose principal activities were those of manufacturing and sales of plastic moulded products, ceased operations and commenced liquidation process. The results from DCQ Plastic Industry Co., Ltd., which contributed solely to injection moulding segment, were presented separately in the consolidated statement of comprehensive income as "Discontinued operation".

In compliance with FRS 105, Non-current Assets Held for Sale and Discontinued Operations, the results of DCQ Plastic Industry Co., Ltd. were presented separately in the consolidated statement of comprehensive income as "Discontinued operation".

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

7. Investment in subsidiaries (Continued)

Liquidation of a subsidiary and discontinued operation (Continued)

The results of the discontinued operation of DCQ Plastic Industry Co., Ltd. under injection moulding segment was as follows:

	Note	2015 US\$
Results of discontinued operation		
Revenue		1,778,236
Cost of sales		(1,755,688)
Gross profit		22,548
Other item of income		
Other income	19	40,436
Other items of expense		
Distribution expenses		(18,412)
Administrative expenses		(51,902)
Other operating expenses		(428,695)
Finance costs		(5,623)
Loss before income tax from discontinued operation	21	(441,648)
Income tax expense		(1,170)
Loss for the financial year from discontinued operation, representing total comprehensive income for the financial year		(442,818)

In prior year, the cost of inventories recognised as an expense and included in "Loss from discontinued operation" line item in the Group's consolidated statement of comprehensive income amounted to US\$1,351,113.

The impacts of the discontinued operation on the cash flows of the Group were as follows:

	2015 US\$
Cash flows used in operating activities	(481,956)
Cash flows from investing activities	325,308
Cash outflows	(156,648)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

7. Investment in subsidiaries (Continued)

Liquidation of a subsidiary and discontinued operation (Continued)

The effects of the discontinued operation and liquidation of DCQ Plastic Industry Co., Ltd. as at the date of liquidation were as follows:

	2015 US\$
Cash and cash equivalents	212,200
Other receivables	7,170
Other payables	(5,445)
Net identifiable assets	213,925
Share of equity interest of 80% for net identifiable assets	171,140
	2015 US\$
Cash distribution upon liquidation	171,140
Net identifiable assets (as above)	(171,140)
Gain on liquidation	–
Cash distribution from liquidation	171,140
Cash and cash equivalents at liquidation date	(212,200)
Net cash impact on liquidation of a subsidiary	(41,060)

8. Inventories

	2016 US\$	2015 US\$
Finished goods	1,368,305	1,037,635
Work in progress	324,242	149,058
Raw materials	3,844,618	4,314,598
	5,537,165	5,501,291

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

The cost of inventories recognised as an expense and included in “Cost of sales” line item in the Group’s statement of comprehensive income amounted to US\$29,249,058 (2015: US\$36,952,116).

The write-down of inventories to net realisable value by the Group amounted to US\$11,626 (2015: US\$Nil) are included in the “Cost of sales” line item.

During the financial year, there was a reversal of allowance for inventory obsolescence amounted to US\$103,594 (2015: US\$300,393) as management had carried out an assessment and noted that there were subsequent utilisation of these raw materials where allowance had been made in prior years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

9. Trade and other receivables

	Group		Company	
	2016 US\$	2015 US\$	2016 US\$	2015 US\$
Trade receivables				
– third parties	7,907,718	6,544,521	870	15,981
– subsidiaries	–	–	9,825,812	6,927,725
	7,907,718	6,544,521	9,826,682	6,943,706
Other receivables				
– third parties	18,981	112,981	–	32,340
– subsidiaries	–	–	8,201,790	1,221,457
Deposits	53,598	64,579	–	–
Advances to suppliers	70,777	72,840	–	–
Total trade and other receivables	8,051,074	6,794,921	18,028,472	8,197,503
Add/(Less):				
Advances to suppliers	(70,777)	(72,840)	–	–
Goods and services tax receivable	(44,737)	(1,600)	(870)	(1,600)
Cash and cash equivalents (Note 10)	8,977,217	11,429,573	3,236,705	4,834,010
Total loans and receivables	16,912,777	18,150,054	21,264,307	13,029,913

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Trade receivables are non-interest bearing and are generally range from 30 to 120 days (2015: 30 to 120 days) credit terms.

The non-trade amounts due from subsidiaries are unsecured, non-interest bearing, and repayable on demand, and are to be settled in cash. The Company's amount owing from subsidiaries includes dividend receivable amounted to US\$7,000,000 (2015: US\$Nil).

The currency profiles of the Group's and Company's trade and other receivables as at end of the reporting period are as follows:

	Group		Company	
	2016 US\$	2015 US\$	2016 US\$	2015 US\$
United States dollar	6,948,264	5,592,986	16,857,606	8,197,503
Chinese renminbi	833,163	563,716	–	–
Singapore dollar	4,715	–	870	–
Vietnamese dong	180,265	–	–	–
Ringgit Malaysia	56,220	638,219	1,169,996	–
Euro	28,447	–	–	–
	8,051,074	6,794,921	18,028,472	8,197,503

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

10. Cash and cash equivalents

	Group		Company	
	2016 US\$	2015 US\$	2016 US\$	2015 US\$
Cash and bank balances	8,804,318	7,251,125	3,236,705	834,010
Fixed deposits	172,899	4,178,448	–	4,000,000
Cash and cash equivalents on statements of financial position	8,977,217	11,429,573	3,236,705	4,834,010
Fixed deposits pledged	(172,899)	(178,448)		
Cash and cash equivalents included in consolidated statement of cash flows	8,804,318	11,251,125		

Fixed deposits bear interest at an average rate of 3.15% – 3.30% (2015: 0.38% – 3.30%) per annum and are for a tenure of approximately 12 months (2015: 1 – 12 months).

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

The currency profiles of the Group's and Company's cash and cash equivalents included in the statements of financial position as at end of the reporting period are as follows:

	Group		Company	
	2016 US\$	2015 US\$	2016 US\$	2015 US\$
United States dollar	7,074,981	8,965,201	3,117,932	4,720,766
Chinese renminbi	408,859	1,697,431	1	–
Singapore dollar	261,392	236,209	117,750	111,770
Vietnamese dong	931,633	173,899	–	–
Ringgit Malaysia	206,994	256,675	46	46
Euro	92,403	100,158	775	1,428
Others	955	–	201	–
	8,977,217	11,429,573	3,236,705	4,834,010

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

11. Share capital

	Group and Company			
	2016	2015	2016	2015
	Number of shares		US\$	US\$
Issued and fully-paid:				
At beginning and end of financial year	209,971,310	209,971,310	18,822,247	18,822,247

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. The ordinary shares have no par value and carry one vote per share without restriction.

12. Reserves

Foreign exchange reserve

The foreign exchange reserve represents foreign exchange differences arising from the translation of the financial statements of foreign operations where functional currency is different from that of the Group's presentation currency.

Statutory reserve

In accordance with the Foreign Enterprise Law applicable to the subsidiaries in the People's Republic of China, the subsidiaries are required to make appropriation to a Statutory Reserve Fund. At least 10% of the statutory after tax profits as determined in accordance with the applicable People's Republic of China accounting standards and regulations must be allocated to the Statutory Reserve Fund until the cumulative total of the Statutory Reserve Fund reaches 50% of the subsidiary's registered capital. Subject to approval from the relevant People's Republic of China authorities, the Statutory Reserve Fund may be used to offset any accumulated losses or increase the registered capital of the subsidiary. The Statutory Reserve Fund is not available for dividend distribution to shareholders.

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 had 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 Remuneration Committee ("RC") expired in January 2011. As at the expiry date, a total number of 2,259,180 Reward Shares were distributed to the employees.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

13. Finance lease payable

	Minimum lease payments US\$	Future finance charges US\$	Present value of minimum lease payments US\$
Group			
2016			
Current liabilities			
Within one year	12,788	(2,426)	10,362
Non-current liabilities			
After one year but within five years	42,096	(3,015)	39,081
	54,884	(5,441)	49,443
2015	—	—	—

The finance lease term is 5 years.

The finance lease bear effective interest rate at 5.42% per annum. Interest rate is fixed at the contract date and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the leased assets, which will revert to the lessor in the event of default by the Group.

The carrying amount of the non-current finance lease payable approximate the fair value as at the end of the reporting period.

The finance lease payable is denominated in Singapore dollar.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

14. Deferred tax liabilities

Recognised deferred liabilities

Deferred tax liabilities are attributable to the following:

	2016 US\$	2015 US\$
Group		
Property, plant and equipment	864,842	1,009,226
Others	57,619	20,581
Deferred tax liabilities	922,461	1,029,807

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

	At 1/1/2015 US\$	Recognised in profit or loss (Note 22) US\$	At 31/12/2015 US\$	Recognised in profit or loss (Note 22) US\$	At 31/12/2016 US\$
Group					
Deferred tax liabilities					
Property, plant and equipment	633,421	375,805	1,009,226	(144,384)	864,842
Others	(32,804)	53,385	20,581	37,038	57,619
	600,617	429,190	1,029,807	(107,346)	922,461

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The Group has presented its deferred tax exposure on a net basis in these financial statements.

Unrecognised deferred tax assets

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

	Group	
	2016 US\$	2015 US\$
Tax losses and capital allowances	–	683,000

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.

At the end of the financial year, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is US\$948,140 (2015: US\$1,193,534). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

15. Trade and other payables

	Group		Company	
	2016 US\$	2015 US\$	2016 US\$	2015 US\$
Trade payables				
– third parties	1,897,607	1,284,426	1,398,258	697,728
– goods and services tax payable	49,851	38,947	–	–
Bills payable	807,500	464,990	807,500	464,990
Trust receipts	1,420,681	823,810	1,420,681	823,810
Other payables				
– third parties	417,504	795,249	2,141	51,533
– a subsidiary	–	–	4,130,253	–
Accrued operating expenses	913,596	1,165,422	303,348	307,131
Total trade and other payables	5,506,739	4,572,844	8,062,181	2,345,192
Add/(Less):				
Goods and services tax payable	(49,851)	(38,947)	–	–
Bank borrowings (Note 16)	–	969,412	–	969,412
Total financial liabilities carried at amortised cost	5,456,888	5,503,309	8,062,181	3,314,604

Trade payables are non-interest bearing and are generally on 30 to 180 days (2015: 30 to 180 days) credit terms.

Trust receipts are unsecured, bear interest ranging from 2.1% to 3.1% (2015: 1.4% to 1.5%) and are normally cash settled within 5 months (2015: 5 months).

The non-trade amount due to a subsidiary is unsecured, non-interest bearing, and repayable on demand, and are to be settled in cash.

The currency profiles of the Group's and the Company's trade and other payables as at end of the reporting period are as follows:

	Group		Company	
	2016 US\$	2015 US\$	2016 US\$	2015 US\$
United States dollar	4,086,938	87,326	7,833,540	2,345,192
Chinese renminbi	524,470	2,499,048	–	–
Singapore dollar	502,874	95,509	228,641	–
Vietnamese dong	16,291	1,633,311	–	–
Ringgit Malaysia	373,640	257,650	–	–
Euro	2,526	–	–	–
	5,506,739	4,572,844	8,062,181	2,345,192

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

16. Bank borrowings

	Group and Company	
	2016	2015
	US\$	US\$
Current liability		
Short-term loans – unsecured	–	969,412

The carrying amounts of the Group's and the Company's bank borrowings approximated their respective fair values due to the relatively short-term maturity of these financial instruments.

Terms and debt repayment schedule of bank borrowings

The nominal interest rates for unsecured revolving credit facilities ranged from 2.5% to 2.9% and had maturity dates in FY2016. The loans have been fully settled during the year.

The bank borrowings are denominated in Singapore dollar.

17. Derivative financial instruments

	Group and Company	
	2016	2015
	US\$	US\$
Liabilities		
Foreign currency forward contracts	142,034	–

The Group utilises currency derivatives to manage its exposure to foreign exchange movements arising from its foreign currency denominated business transactions.

The Group and the Company are parties to a variety of foreign currency forward contracts in the management of its exchange rates exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

17. Derivative financial instruments (Continued)

As at the end of the reporting period, the outstanding forward foreign currency contracts to which the Group and the Company are committed are as follows:

	Group and Company			
	Notional amount		Fair value loss	
	2016 US\$	2015 US\$	2016 US\$	2015 US\$
Sell United States dollar	<u>4,400,000</u>	<u>–</u>	<u>142,034</u>	<u>–</u>

The fair value of the forward foreign currency contracts is determined based on quoted market prices for equivalent forward currency contracts at the end of the reporting period.

The foreign currency forward contracts are to be settled within 6 months or less after the reporting period on a gross basis.

18. Revenue

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

	Group	
	2016 US\$	2015 US\$
Continuing operations		
Sale of goods	41,782,891	48,152,210
Discontinued operation		
Sale of goods	–	1,778,236
	<u>41,782,891</u>	<u>49,930,446</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

19. Other income

	Group	
	2016 US\$	2015 US\$
Continuing operations		
Gain on disposal of property, plant and equipment	49,710	5,372,702
Rental income	153,203	393,970
Sales of scrap	146,485	114,168
Payable written off	58,456	–
Government grant	8,365	4,354
Others	100,134	74,450
	516,353	5,959,644
Discontinued operation		
Others	–	40,436
	516,353	6,000,080

20. Net finance costs

	Group	
	2016 US\$	2015 US\$
Continuing operations		
Finance income:		
Interest income on bank deposits	42,084	12,200
Finance costs:		
Interest expenses on short-term revolving credit facilities	(18,089)	(68,826)
Interest expenses on trust receipts	(19,978)	(59,209)
Interest expenses on finance lease payable	(2,471)	–
Foreign exchange loss, net	(36,286)	(41,535)
	(76,824)	(169,570)
Net finance costs recognised in profit or loss	(34,740)	(157,370)
Discontinued operation		
Finance income:		
Interest income on bank deposits	–	308
Finance costs:		
Foreign exchange loss, net	–	(3,465)
Net finance costs recognised in profit or loss	(34,740)	(160,527)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

21. Profit before income tax

In addition to the charges and credits disclosed elsewhere in the notes to the financial statements, the above includes the following charges:

	Group	
	2016 US\$	2015 US\$
<u>Continuing operations</u>		
<u>Cost of sales</u>		
Depreciation of property, plant and equipment	1,213,202	1,179,444
Property, plant and equipment written off	626,306	–
Operating lease expense	86,193	97,868
Amortisation of lease prepayments	13,087	12,297
Cost of inventories	29,249,058	36,952,116
Write back for inventory obsolescence	(103,594)	(300,393)
Write down of inventories to net realisable value	11,626	–
<u>Distribution expenses</u>		
Depreciation of property, plant and equipment	65	–
Freight and handling	380,764	401,509
Commission expenses	8,959	10,125
<u>Administrative expenses</u>		
Audit fees		
– auditors of the Company	69,584	65,048
– other auditors	20,254	21,582
Non-audit fees		
– other auditors	1,100	1,200
Depreciation of property, plant and equipment	182,964	168,638
Property, plant and equipment written off	4,289	223,883
Operating lease expense	57,247	39,662
Amortisation of intangible assets	5,753	6,731
Amortisation of lease prepayments	8,538	8,791
Listing expenses	33,826	55,441
Repair and maintenance expenses	36,651	28,381
Travelling expenses	45,268	29,974
<u>Other operating expenses</u>		
Depreciation of property, plant and equipment	74,685	65,643
Inventories written off	71,156	–
Property, plant and equipment written off	20,412	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

21. Profit before income tax (Continued)

	Group	
	2016 US\$	2015 US\$
Discontinued operation		
<u>Cost of sales</u>		
Cost of inventories	–	1,351,113
Depreciation of property, plant and equipment	–	48,355
<u>Distribution expenses</u>		
Freight and handling	–	18,069
Commission expenses	–	343
<u>Administrative expenses</u>		
Depreciation of property, plant and equipment	–	1,165
Office expenses	–	6,771
<u>Other operating expenses</u>		
Loss on disposal of property, plant and equipment	–	428,443

Profit before income tax also includes:

	Group	
	2016 US\$	2015 US\$
Continuing operations		
Employee benefits expenses		
– salaries, bonuses and other benefits	3,617,555	3,533,843
– contributions to the defined contribution plan	203,815	443,420
	3,821,370	3,977,263
Discontinued operation		
Employee benefits expenses		
– salaries, bonuses and other benefits	–	11,413

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

21. Profit before income tax (Continued)

The employee benefits expenses are recognised in the following line items of profit or loss:

	Group	
	2016 US\$	2015 US\$
Continuing operations		
Cost of sales	1,641,290	1,757,685
Distribution of expenses	450,248	109,768
Administrative expenses*	1,729,832	2,109,810
	3,821,370	3,977,263
Discontinued operation		
Administrative expenses	–	11,413

* The above includes the remuneration of Directors and other key management personnel as shown in Note 27 to the financial statements.

22. Income tax expense

	Continuing operations		Group Discontinued operation		Total	
	2016 US\$	2015 US\$	2016 US\$	2015 US\$	2016 US\$	2015 US\$
Current income tax						
– Current financial year	876,512	517,908	–	–	876,512	517,908
– (Over)/Under provision in prior years	(145,748)	(90,498)	–	1,170	(145,748)	(89,328)
	730,764	427,410	–	1,170	730,764	428,580
Deferred tax						
– Current financial year	(117,346)	420,104	–	–	(117,346)	420,104
– Under provision in prior years	10,000	9,086	–	–	10,000	9,086
	(107,346)	429,190	–	–	(107,346)	429,190
Total income tax expense in consolidated statement of comprehensive income	623,418	856,600	–	1,170	623,418	857,770

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

22. Income tax expense (Continued)

Reconciliation of effective income tax rate

	Group	
	2016 US\$	2015 US\$
Profit before income tax from		
– continuing operations	3,886,824	8,605,017
– discontinued operation	–	(441,648)
	3,886,824	8,163,369
Tax calculated at Singapore income tax rate of 17% (2015: 17%)	660,760	1,387,773
Effect of different tax rates of overseas operations	181,736	147,684
Tax effect of income not subject to tax	(35,195)	(783,179)
Tax effect of non-deductible expenses for income tax purpose	52,079	310,596
Tax effect of tax rebates and exemption	(109,951)	(75,150)
Utilisation of previously unrecognised deferred tax benefits	–	(92,047)
Unrecognised deferred tax assets	–	3,229
Overprovision in prior years	(135,748)	(80,242)
Tax incentive	(1,516)	(3,743)
Others	11,253	42,849
Total income tax expense	623,418	857,770

23. Earnings per share

The calculation for earnings per share is based on:

	Group	
	2016	2015
Profit after income tax from continuing operations attributable to owners of the parent (US\$)	3,263,406	7,748,417
Loss after income tax from discontinued operation attributable to owners of the parent (US\$)	–	(354,164)
Actual number of ordinary shares in issue during the financial year applicable to basic earnings per share	209,971,310	209,971,310
<u>Earnings per share from continuing operations (cents)</u>		
– Basic earnings per share	1.55	3.69
– Diluted earnings per share	1.55	3.69
<u>Loss per share from discontinued operation (cents)</u>		
– Basic loss per share	–	(0.17)
– Diluted loss per share	–	(0.17)

Basic earnings per share is calculated by dividing the Group's profit after income tax attributable to owners of the parent by the actual number of ordinary shares during the financial year. The Group has no dilutive potential ordinary shares in the current or previous financial years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

24. Dividends

	Group and Company	
	2016	2015
	US\$	US\$
Interim one-tier exempt dividend of Nil (2015: 0.75 Singapore cents) per share in respect of current financial year	–	1,115,050
Special tax-exempt dividend of 2.50 Singapore cents (2015: Nil) per share in respect of the previous financial year	3,906,008	–
Final tax-exempt dividend of 0.75 Singapore cents (2015: 1.50 Singapore cents) per share in respect of the previous financial year	1,171,803	2,335,609
	5,077,811	3,450,659

The Board of Directors proposed that a final dividend of 1.50 Singapore cents per ordinary share amounting to approximately US\$2,177,072 to be paid for the financial year ended 31 December 2016. The dividend has not been recognised as a liability as at the end of the reporting period as it is subject to the approval of the shareholders at the Annual General Meeting.

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25. Operating lease commitments

The Group as lessee

The Group leases office premises and office equipment in Singapore, Malaysia and Vietnam under operating leases. The leases have remaining lease periods of 1 to 6 years (2015: 2 to 7 years) and generally have renewal options.

As at the end of the financial year, the future minimum lease payable under non-cancellable operating leases contracted for but not recognised as liabilities are as follows:

	Group	
	2016	2015
	US\$	US\$
Within one year	23,333	23,417
After one year but within five years	39,763	35,502
After five years	6,440	13,245
	69,536	72,164

Operating lease payments represent rents payable by the Group for office premises and office equipment. Leases are negotiated for an average term of 3 to 8 years (2015: 3 to 8 years).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

25. Operating lease commitments (Continued)

The Group as lessor

The Group has sublet part of its factory buildings in People's Republic of China. As at the end of the financial year, the future minimum lease receivable under non-cancellable operating leases at the end of the financial year are as follows:

	Group	
	2016 US\$	2015 US\$
Within one year	110,009	147,966
After one year but within five years	–	459,088
	110,009	607,054

These non-cancellable leases have remaining lease terms of 1 year (2015: 2 years).

26. Capital commitments

As at the end of the financial year, commitments are in respect of capital expenditure relate to purchase of equipment and construction of the new factory in Vietnam. In prior year, the capital commitments related to construction of the new factory.

The details are as follows:

	Group	
	2016 US\$	2015 US\$
Capital expenditure contracted but not provided for	137,508	789,531

27. Significant related party transactions

During the financial year, in addition to the information disclosed elsewhere in these financial statements, the Company entered into the following transactions with related parties at rates and terms agreed between the parties:

	Company	
	2016 US\$	2015 US\$
With subsidiaries		
Sale of goods	24,412,646	19,799,590
Dividend income	7,746,753	1,300,000
Advances from	8,683,059	5,592,037
Settlement on behalf	15,941,493	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

27. Significant related party transactions (Continued)

Key management personnel are Directors of the Company and those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Company, directly, or indirectly.

The remunerations of key management personnel of the Group and of the Company during the financial year were as follows:

	Group	
	2016 US\$	2015 US\$
Directors of the Company		
– Short-term benefits	613,076	947,161
– Post-employment benefits	27,677	21,273
– Directors' fees	123,818	140,117
Other key management personnel		
– Short-term benefits	285,189	270,484
– Post-employment benefits	25,553	14,156
	1,075,313	1,393,191

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28. Segment information

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 toll 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.

Income taxes are managed by management of the respective entities within the Group.

There is no change from prior periods in the measurement methods used to determine reported segment results.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

28. Segment information (Continued)

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. There is no asymmetrical allocation to reportable segments. Management evaluates performance on the basis of profit or loss from operation before income tax expense, not including non-recurring gains and losses.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

	Resin Compounding (Continuing operations)		Polyethylene Packaging (Continuing operations)		Injection Moulding (Discontinued operation)		Total	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
External revenue	22,259	28,234	19,524	19,918	–	1,778	41,783	49,930
Segment results	2,423	1,498	1,498	1,744	–	(438)	3,921	2,804
Interest income	42	12	–	–	–	–	42	12
Finance cost	(68)	(197)	(9)	28	–	(4)	(77)	(173)
Profit before income tax	2,397	1,313	1,489	1,772	–	(442)	3,886	2,643
Income tax expense	(522)	(327)	(101)	(530)	–	(1)	(623)	(858)
Profit after income tax	1,875	986	1,388	1,242	–	(443)	3,263	1,785
Assets and liabilities								
Segment assets	24,164	24,389	15,632	17,389	–	–	39,796	41,778
Segment liabilities	5,612	5,170	1,625	1,823	–	–	7,237	6,993
Other material non-cash items								
Capital expenditure	1,381	692	251	3,300	–	80	1,632	4,072
Depreciation of property, plant and equipment	467	306	1,004	1,107	–	50	1,471	1,463

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

28. Segment information (Continued)

Reconciliations of reportable segment revenue and profit and loss

	2016 US\$'000	2015 US\$'000
Revenue		
Total revenue for reportable segments	41,783	49,930
Consolidated revenue	41,783	49,930
Profit or loss		
Profit before income tax for reportable segments	3,886	2,643
Add:		
Gain on disposal of property	–	5,520
Loss before income tax from discontinued operation	–	442
Consolidated profit before income tax from continuing operations	3,886	8,605

Geographical information

Revenue is based on the country in which the customers are located. Non-current assets comprise primarily of property, plant and equipment, lease prepayments and intangible assets. Non-current assets are shown by the geographical area in which the assets are located.

	2016 US\$'000	2015 US\$'000
Revenue from external customers		
Continuing operations:		
People's Republic of China	14,236	19,300
Singapore	19,322	19,794
Malaysia	3,440	5,592
Vietnam	4,785	3,466
	41,783	48,152
Discontinued operation:		
Vietnam	–	1,778
	41,783	49,930
Non-current assets		
Continuing operations:		
People's Republic of China	2,197	2,476
Singapore	2,493	3,296
Malaysia	10,193	10,938
Vietnam	2,213	1,002
	17,096	17,712
Discontinued operation:		
Vietnam	–	–
	17,096	17,712

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

28. Segment information (Continued)

Major customers

Revenue from one customer of the Group's polyethylene packaging segment represents approximately US\$12,625,705 or 30% (2015: US\$12,327,661 or 26%) of the Group's total revenue. There is no customer whose revenue from Group's resin compounding segment represents more than 10% of the Group's total revenue.

29. Financial instruments, financial risks and capital management

The Group's activities expose them to credit risks, market risks (including foreign currency risks and interest rates risks) and liquidity risks.

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. 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.

There have been no changes to the Group's exposure to these financial risks or the manner in which it manages and measures the risk. Market risk exposures are measured using sensitivity analysis as indicated below.

29.1 Credit risks

Credit risks refer to the risk that counterparty will default on its contractual obligations resulting in a loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group performs ongoing credit evaluation of its counterparties' financial condition and generally does not require a collateral.

The Group has significant credit exposures arising from the trade amounts due from 9 (2015: 6) major customers representing 56% (2015: 52%) of total trade and other receivables as at 31 December 2016.

The Company has significant credit exposures arising from the trade and non-trade amounts due from subsidiaries amounting to US\$9,825,812 (2015: US\$6,927,725) and US\$8,201,790 (2015: US\$1,221,457) respectively.

The Group's and Company's major classes of financial assets are cash and cash equivalents and trade and other receivables.

Cash and cash equivalents are mainly deposits with reputable banks and financial institutions with minimum risk of default.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

29. Financial instruments, financial risks and capital management (Continued)

Risk management framework (Continued)

29.1 Credit risks (Continued)

Trade receivables that are neither past due nor impaired are substantially companies with good collection track record with the Group and the Company. The Group's and the Company's historical experience in the collection of receivables falls within the credit terms granted.

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

	Group		Company	
	2016 Gross US\$	2015 Gross US\$	2016 Gross US\$	2015 Gross US\$
Not past due	6,370,452	5,965,212	4,184,040	3,236,655
Past due 0 – 30 days	1,481,696	543,485	3,430,092	1,789,578
Past due 31 – 120 days	55,570	35,824	736,440	1,917,473
Past due more than 120 days	–	–	1,476,110	–
	7,907,718	6,544,521	9,826,682	6,943,706

Based on the Group's monitoring of customers' credit risks, the Group believes that, no impairment allowance is necessary in respect of these trade receivables. These receivables are mainly arising by customers that have a good record with the Group.

29.2 Market risks

The Group's activities expose it primarily to the financial risks of changes in market prices, such as foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign currency risks

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, Singapore dollar, Vietnamese dong, Ringgit Malaysia and Euro. Exposure to currency risk is monitored on an ongoing basis and the Group endeavours to keep the net exposure at an acceptable level. When necessary, the Group uses forward exchange contracts to hedge its foreign currency risk. The Group's exposure to foreign currency risk is as follows:

	Group			
	Monetary assets		Monetary liabilities	
	2016 US\$	2015 US\$	2016 US\$	2015 US\$
Chinese renminbi	178,242	2,261,147	339,373	2,499,048
Singapore dollar	266,107	236,209	552,317	95,509
Vietnamese dong	1,111,898	173,899	16,291	1,633,311
Ringgit Malaysia	263,214	894,894	373,640	257,650
Euro	120,850	100,158	2,526	–
Others	955	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

29. Financial instruments, financial risks and capital management (Continued)

Risk management framework (Continued)

29.2 Market risks (Continued)

Foreign currency risks (Continued)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% (2015: 10%) change in Chinese renminbi, Singapore dollar, Vietnamese dong, Ringgit Malaysia and Euro. The sensitivity analysis assumes an instantaneous 10% change in the foreign currency exchange rates from the end of the reporting period, with all other variables held constant. The results of the model are also constrained by the fact that only monetary items, which are denominated Chinese renminbi, Singapore dollar, Vietnamese dong, Ringgit Malaysia and Euro are included in the analysis. Consequentially, reported changes in the values of some of the financial instruments impacting the results of the sensitivity analysis are not matched with the offsetting changes in the values of certain excluded items that those instruments are designed to finance or hedge.

	Increase/(Decrease)	
	Profit before tax	
	2016 US\$	2015 US\$
Group		
<i>Chinese renminbi</i>		
Strengthens against United States dollar	(16,113)	(23,790)
Weakens against United States dollar	16,113	23,790
<i>Singapore dollar</i>		
Strengthens against United States dollar	(28,621)	14,070
Weakens against United States dollar	28,621	(14,070)
<i>Vietnamese dong</i>		
Strengthens against United States dollar	109,561	(145,941)
Weakens against United States dollar	(109,561)	145,941
<i>Ringgit Malaysia</i>		
Strengthens against United States dollar	(11,043)	63,724
Weakens against United States dollar	11,043	(63,724)
<i>Euro</i>		
Strengthens against United States dollar	11,832	10,016
Weakens against United States dollar	(11,832)	(10,016)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

29. Financial instruments, financial risks and capital management (Continued)

Risk management framework (Continued)

29.2 Market risks (Continued)

Interest rate risks

As at reporting date, the Group does not have any significant exposure to interest rate risk. Its interest rate risk is primarily attributable to finance lease payable and trust receipts as shown in Note 13 and Note 15 to the financial statements. 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.

29.3 Liquidity risks

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 Company's policy is to provide financial guarantees only in respect of its wholly owned subsidiaries. The Company has provided financial guarantees to banks in respect of banking facilities granted to a subsidiary amounting to US\$12,382,000 (2015: US\$5,800,000). As at the end of the financial year 2016 and 2015, the subsidiary did not utilise these banking facilities. The Company has not recognised any liability in respect of guarantees given to the banks for banking facilities granted to the subsidiary as the Company does not consider it probable that a claim will be made against the Company under the intra-group financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

29. Financial instruments, financial risks and capital management (Continued)

Risk management framework (Continued)

29.3 Liquidity risks (Continued)

Contract maturity analysis

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

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

	Within one financial year or on demand US\$	After one financial year but within five financial years US\$	After five financial years US\$	Total US\$
Group				
2016				
Financial liabilities				
Trade and other payables	5,463,034	–	–	5,463,034
Finance lease payable	12,788	42,096	–	54,884
Gross settled forward exchange contracts				
– Inflow	(4,400,000)	–	–	(4,400,000)
– Outflow	4,542,034	–	–	4,542,034
	<u>5,617,856</u>	<u>42,096</u>	<u>–</u>	<u>5,659,952</u>
2015				
Financial liabilities				
Trade and other payables	4,538,072	–	–	4,538,072
Bank borrowings	975,695	–	–	975,695
	<u>5,513,767</u>	<u>–</u>	<u>–</u>	<u>5,513,767</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

29. Financial instruments, financial risks and capital management (Continued)

Risk management framework (Continued)

29.3 Liquidity risks (Continued)

Contract maturity analysis (Continued)

	Within one financial year US\$	After one financial year but within five financial years US\$	After five financial years US\$	Total US\$
Company 2016				
Financial liabilities				
Trade and other payables	8,068,327	–	–	8,068,327
Gross settled forward exchange contracts				
– Inflow	(4,400,000)	–	–	(4,400,000)
– Outflow	4,542,034	–	–	4,542,034
	<u>8,210,361</u>	<u>–</u>	<u>–</u>	<u>8,210,361</u>
Company 2015				
Financial liabilities				
Trade and other payables	2,349,367	–	–	2,349,367
Bank borrowings	975,695	–	–	975,695
	<u>3,325,062</u>	<u>–</u>	<u>–</u>	<u>3,325,062</u>

30. Capital management policies and objectives

The Group and the Company manage their capital to ensure that the Group and the Company are able to continue as a going concern and maintain an optimal capital structure so as to maximise shareholder's value.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings as disclosed in Notes 11 and 12. 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.

The Group and the Company are in compliance with externally imposed capital requirements described in Note 12 statutory reserve for the financial years ended 31 December 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

31. Fair value of financial assets and financial liabilities

Fair value hierarchy

The Group and the Company classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

Fair value of financial instruments that are not carried at fair value

The carrying amounts of the current financial assets and current financial liabilities recorded at amortised cost in the financial statements approximate their respective fair values as at the end of the reporting period due to the relatively short-term maturity of these financial instruments.

Management estimates that the carrying amounts of the finance lease payable approximate its fair value.

Fair value of financial instruments carried at fair value

The fair value of current financial liabilities in relation to derivative financial instruments is disclosed in Note 17 to the financial statements classified by level of fair value hierarchy are as follows:

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Group and Company				
2016				
Derivative financial instrument				
– Forward contracts	–	142,034	–	142,034
2015				
Derivative financial instrument				
– Forward contracts	–	–	–	–

The fair value of the forward exchange contracts was determined based on valuation techniques with observable market data. The fair value of forward exchange contracts were analysed as Level 2.

There was no transfer between the levels during the financial year.

SHAREHOLDERS' INFORMATION

AS AT 15 MARCH 2017

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 15 MARCH 2017

Size of Shareholdings	Number of Shareholders	%	Number of Shares	%
1 – 99	0	0.00	0	0.00
100 – 1,000	287	33.10	280,159	0.14
1,001 – 10,000	409	47.18	2,022,501	0.96
10,001 – 1,000,000	159	18.34	14,388,500	6.85
1,000,001 and above	12	1.38	193,280,150	92.05
	900	100.00	209,971,310	100.00

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as at 15 March 2017 are as follows:–

Name	Direct Interest	No. of Ordinary shares		%
		%	Deemed Interest	
INTRACO Limited	62,800,000	29.91	23,845,000	11.36
Yeo Hock Leng	27,839,496	13.26	–	–
Goh Seok Eng	20,760,684	9.89	–	–
Lee Low Meng	14,733,781	7.02	–	–
Syn Chung Wah/Quek Soh Mui Lucy	13,789,097	6.57	–	–
Chia Chue Soong/Tay Giok Siang	12,153,659	5.79	–	–
TH Investments Pte Ltd ⁽¹⁾	–	–	86,645,000	41.27
Tat Hong Investments Pte Ltd ⁽¹⁾	–	–	86,645,000	41.27
Chwee Cheng & Sons Pte Ltd ⁽¹⁾	–	–	86,645,000	41.27
Ng San Tiong ⁽²⁾	–	–	86,645,000	41.27
Ng Sun Ho ⁽²⁾	–	–	86,645,000	41.27
Ng San Wee ⁽²⁾	–	–	86,645,000	41.27
Ng Sun Giam ⁽²⁾	–	–	86,645,000	41.27
Amtrek Investment Pte Ltd ⁽³⁾	–	–	86,645,000	41.27
Macondray Holdings Pte. Ltd. ⁽³⁾	–	–	86,645,000	41.27
Asia Resource Corporation Pte Ltd ⁽⁴⁾	–	–	86,645,000	41.27
Resource Pacific Holdings Pte Ltd ⁽⁵⁾	–	–	86,645,000	41.27
Chew Leong Chee ⁽⁶⁾	–	–	86,645,000	41.27
Melanie Chew Ng Fung Ning ⁽⁷⁾	–	–	86,645,000	41.27

SHAREHOLDERS' INFORMATION

AS AT 15 MARCH 2017

- Note 1 TH Investments Pte Ltd ("**THIPL**") owns 28.43% interest in INTRACO Limited ("**IL**"), which has an aggregate interest of 41.27% 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**").

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 2 43.56% 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.

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 43.56% shareholding interest in CCSPL and a direct interest in CCSPL.

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 3 Amtrek Investment Pte Ltd ("**AIPL**") owns 27.96% interest in IL, which in turn is wholly owned by Macondray Holdings Pte. Ltd. ("**MHPL**").

As a result, each of AIPL and MHPL is deemed to have an interest in all the shares held by IL in the Company.

- Note 4 Asia Resource Corporation Pte Ltd ("**ARCPL**") owns 79.04% interest in MHPL. MHPL owns 100% interest in AIPL. AIPL owns 27.96% interest in IL. As a result, ARCPL is deemed to be interested in all the shares held by IL in the Company.

- Note 5 Resource Pacific Holdings Pte Ltd ("**RPHPL**") owns 44.98% interest in ARCPL. ARCPL owns 79.04% interest in MHPL. MHPL owns 100% interest in AIPL. AIPL owns 27.96% interest in IL. As a result, RPHPL is deemed to be interested in all the shares held by IL in the Company.

- Note 6 Mr Chew Leong Chee ("**Mr Chew**") owns 25% direct interest and 30% indirect interest through his spouse, Dr Melanie Chew Ng Fung Ning ("**Dr Melanie Chew**"), in RPHPL. Mr Chew also owns 40.01% interest in ARCPL.

RPHPL owns 44.98% interest in ARCPL. ARCPL owns 79.04% interest in MHPL. MHPL owns 100% interest in AIPL. AIPL owns 27.96% interest in IL. As a result, Mr Chew is deemed to be interested in all the shares held by IL in the Company.

- Note 7 Dr Melanie Chew owns 30% direct interest in RPHPL. Dr Melanie Chew is also deemed to be interested in 25% and 40.01% interest in RPHPL and ARCPL respectively held by her spouse, Mr Chew.

RPHPL owns 44.98% interest in ARCPL. ARCPL owns 79.04% interest in MHPL. MHPL owns 100% interest in AIPL. AIPL owns 27.96% interest in IL. As a result, Dr Melanie Chew is deemed to be interested in all the shares held by IL in the Company.

SHAREHOLDERS' INFORMATION

AS AT 15 MARCH 2017

TWENTY LARGEST SHAREHOLDERS AS AT 15 MARCH 2017

	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	23,845,000	11.36
4	GOH SEOK ENG	20,760,684	9.89
5	LEE LOW MENG	14,733,781	7.02
6	SYN CHUNG WAH OR QUEK SOH MUI LUCY MRS LUCY SYN	13,789,097	6.57
7	CHIA CHUE SOONG OR TAY GIOK SIANG	12,153,659	5.79
8	GOH SEOK KEE	6,788,000	3.23
9	HOE PUAY CHOO	3,906,533	1.86
10	GOH LUCY	3,171,000	1.51
11	MA FAT YING	2,142,000	1.02
12	DBS NOMINEES PTE LTD	1,174,700	0.56
13	GOH CHA BOH	808,000	0.38
14	TAN SOON LIM	800,000	0.38
15	LOW CHENG LUM	750,000	0.36
16	LAI WENG KAY	636,000	0.30
17	TAN NIANG SOR	505,000	0.24
18	ANG CHENG KIAT	500,000	0.24
19	LEE KOK PUN	500,000	0.24
20	CHIA SU HOONG JENNIFER @ TAY SU HOONG JENNIFER	457,000	0.22
		198,059,950	94.34

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

As at 15 March 2017, approximately 16.07% 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 15 March 2017.

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 Emerald Suite, Orchid Country Club, 1 Orchid Club Road, Singapore 769162 on Friday, 21 April 2017 at 10.30 am for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors’ Statement and the Audited Financial Statements of the Company for the year ended 31 December 2016 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 2016. **(Resolution 2)**
3. To re-elect Mr Yeo Hock Leng, who will be retiring by rotation under Article 103 of the Constitution, and who, being eligible, offers himself for re-election as a director of the Company. **(Resolution 3)**
[See Explanatory Note (i)]

Mr Soon Boon Siong is retiring under Article 103 of the Constitution at the Annual General Meeting, and has decided not to offer himself for re-appointment to office.

4. To approve the payment of Directors’ fees of S\$192,000 for the year ending 31 December 2017, to be paid quarterly in arrears. [See Explanatory Note (ii)] **(Resolution 4)**
5. To re-appoint BDO LLP as the Company’s Auditors and to authorise the Directors to fix their remuneration. **(Resolution 5)**
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

NOTICE OF ANNUAL GENERAL MEETING

(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 (iii)]

(Resolution 6)

By Order of the Board

Chan Wan Mei
Company Secretary
Singapore, 6 April 2017

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes

- (i) Ordinary Resolution 3 is to re-elect Mr Yeo Hock Leng who will be retiring by rotation under Article 103 of the Constitution and if he is re-elected, he will remain as Executive Chairman and Group Managing Director. Mr Yeo is considered a Non-Independent Director. Key information on Mr Yeo is found on page 22 of the Annual Report.
- (ii) Ordinary Resolution 4 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 2017 (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 2016 is disclosed in full in the Annual Report.
- (iii) The Ordinary Resolution 6, 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 6) 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 6) 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.

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Notes:

- 1. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two 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 Share Registrar at 80 Robinson Road #11-02 Singapore 068898, 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.

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DYNAMIC COLOURS LIMITED

Company Registration Number 199304233Z
(Incorporated in the Republic of Singapore)

IMPORTANT

- Pursuant to Section 181(1C) of the Companies Act, Chapter 50 (the "Act"), Relevant Intermediaries may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
- 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.
- CPF investors are requested to contact their respective Agent Banks for any queries they may have with regard to their appointment as proxies.

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 Annual General Meeting dated 6 April 2017.

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 Emerald Suite, Orchid Country Club, 1 Orchid Club Road, Singapore 769162 on Friday, 21 April 2017 at 10.30 am 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:	No. of Votes For	No. of Votes Against
1.	Directors' Statement and Audited Financial Statements for the year ended 31 December 2016		
2.	Payment of final dividend		
3.	Re-election of Mr Yeo Hock Leng		
4.	Payment of Directors' fees of S\$192,000 for the year ending 31 December 2017, to be paid quarterly in arrears		
5.	Re-appointment of BDO LLP as Auditors		
6.	Authority to allot and issue shares pursuant to Section 161 of the Companies Act, Cap. 50		

Dated this _____ day of _____ 2017

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

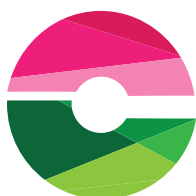
IMPORTANT: PLEASE READ NOTES OVERLEAF

NOTES

1. Except for a member who is a Relevant Intermediary as defined under Section 181(6) of the Companies Act, Chapter 50 of Singapore (the “Companies Act”), 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. Pursuant to Section 181(1C) of the Companies Act, a member who is a Relevant Intermediaries such as banks and capital markets services licence holders which provide custodial services and are members of the Company may appoint more than two proxies provided each proxy is appointed to exercise the rights attached to different shares held by the member. In such event, the relevant intermediary shall submit a list of its proxies together with the information required in this proxy form to the Company.
3. 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.
4. A proxy need not be a member of the Company.
5. 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 81SF of the Securities and Futures Act, Chapter 289), 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.
6. The instrument appointing a proxy or proxies must be deposited at the Company’s Share Registrar at 80 Robinson Road #11-02 Singapore 068898, not less than forty-eight (48) hours before the time set for the Meeting.
7. 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.
8. 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.
9. An investor who buys shares using CPF monies (“CPF Investor”) and/or SRS monies (“SRS Investor”) (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

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 72 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.



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

Chong Yee Siew Sebastian (Lead Independent Director)

Soon Boon Siong (Independent Director)

Tan Lye Huat (Independent Director)

Hoon Wee Teng, Will (Non-Executive Director)

NOMINATING COMMITTEE

Soon Boon Siong (Chairman)

Chong Yee Siew Sebastian

Tan Lye Huat

REMUNERATION COMMITTEE

Chong Yee Siew Sebastian (Chairman)

Soon Boon Siong

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, ACS

Lee Pay Lee, ACIS, ACS

REGISTERED OFFICE

21 Woodlands Close #09-12 Primz Bizhub Singapore 737854

SHARE REGISTRAR

Tricor Barbinder Share Registration Services

(A division of Tricor Singapore Pte Ltd)

80 Robinson Road #02-00 Singapore 068898

AUDITORS

BDO LLP

600 North Bridge Road #23-01 Parkview Square Singapore 188778

AUDIT PARTNER-IN-CHARGE

Lew Wan Ming

Date of appointment: Appointed since financial year ended 31 December 2015



DYNAMIC COLOURS LIMITED

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