



**DYNAMIC COLOURS LIMITED**

**ANNUAL  
REPORT  
2017**



**Celebrating 10 Years  
of Continuous Success**



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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 forerunners in Jiangsu Province, PRC, and are strategically located near existing and potential clients. Our other production facilities are located in Malaysia and Vietnam.

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



## CHAIRMAN'S STATEMENT

**YEO HOCK LENG***Executive Chairman and  
Group Managing Director*

### DEAR SHAREHOLDERS,

FY2017 has marked a significant milestone year for Dynamic Colours Limited ("the Group") after a decade of operational excellence for the Group since our listing with SGX in November 2007. The Group bagged the Best Managed Board – Silver Award by the Singapore Corporate Award 2017, and the runner-up of the Transparent Award (small & mid cap) by the Securities Investors Association (Singapore) – 18th Investors' Choice Award 2017.

The Group has been striving relentlessly to be among the best in what we do. Our quality product delivery and rapid response to customers have sustained the Group as a preferred business partner in our business segments in China, Vietnam, Malaysia and Singapore. Over the past ten years, we have built our stronghold in the electronics and petrochemical industries for both the resin compounding ("RC") and polyethylene packaging ("PP")

divisions. Amidst the challenges and volatility in the industry, we manage to sustain business profitability and enhance shareholder value by distributing dividends for the past ten consecutive years.

### OPERATING HIGHLIGHTS

In FY2017, the Group's turnover increased by 5.8% to US\$44.21 million due largely to higher RC average selling prices. However, with higher raw material cost, the Group's cost of sales increased by 6.8%, resulting in erosion of gross profit margin by 0.8% to 16.7%. Toll compounding services by our plants in China and Vietnam have contributed more to the RC segment than a year ago, lifting RC segment's overall contribution to the Group's revenue to 56.1% from 53.3%. For the year under review, the Group recorded a net profit of US\$3.34 million, up from US\$3.26 million in the previous year.

## CHAIRMAN'S STATEMENT

Boosted by strong earnings, the Group achieved another year of positive cash inflow from its operating activities. Compared with US\$4.85 million in the previous corresponding year, the net cash from operating activities was lower at US\$2.58 million as the Group used more working capital to build up higher inventory level. The net cash outflow of US\$1.46 million from investing activities was mainly due to the acquisition of leasehold land in Vietnam whilst dividend payments accounted for the net cash outflow from financing activities of US\$1.05 million. At the close of 2017, the Group maintained a strong cash position of US\$9.22 million.

### LOOKING AHEAD

Amidst the market uncertainty and volatility, we are confident of the Group's ability to remain competitive. We shall continue to expand our customer base and explore new markets for growth. We will also look for other opportunities that generate stable income.

### DIVIDEND

For the year ended 31 December 2017, the Board has recommended a final dividend of S\$0.015 per share (tax exempt) or S\$3.15 million in total.

### ACKNOWLEDGEMENTS

We wish to take this opportunity to acknowledge the support, commitment and dedication of the Board, Management and staff of the Group during the year. On behalf of the Board and Management, we would also like to express our sincere appreciation to all shareholders, customers and business associates for your confidence and continued support to the Group. We look forward to working together with all of you for another great year ahead.

### YEO HOCK LENG

Executive Chairman and  
Group Managing Director



## OPERATIONS REVIEW



Year ended 31 December 2017 (“FY2017”) compared to the year ended 31 December 2016 (“FY2016”)

### 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.

### STATEMENT OF COMPREHENSIVE INCOME

Group revenue increased by US\$2.43M (5.8%), from US\$41.78M in FY2016 to US\$44.21M in FY2017.

Revenue for RC segment increased by 11.4% due to an increase in RC average selling price by 19.4% despite a decrease in production tonnage by 6.7%.

The PP segment revenue decreased by 0.6% due to a decrease in PP production tonnage by 0.6%. The average selling price remained about the same as constant compared to last year.

Cost of sales increased by 6.8% in FY2017. This was due to an increase in raw material cost per ton.

Other income mainly comprising rental income decreased by 42.9% to US\$295K in FY2017.

Distribution expenses increased by 11.4% from US\$0.91M to US\$1.01M mainly due to increase in freight costs.

Administrative expenses decreased from US\$2.76M in FY2016 to US\$2.45M in FY2017. These were due to a reduction in office administrative expenses and staff costs.

Other operating expenses decreased by US\$17K to US\$200K in FY2017 mainly due to lower depreciation.

Net finance income (representing bank interest income and net foreign exchange gain) increased by US\$99K due to increase in foreign exchange gain of US\$143K, partially offset by an increase in finance cost of US\$26K.

## OPERATIONS REVIEW

As a result of the above, the Group's net profit for the year increased by 2.5% from US\$3.26M in FY2016 to US\$3.34M in FY2017.

### STATEMENT OF FINANCIAL POSITION

The decrease in property, plant and equipment from US\$16.42M to US\$15.59M was mainly the result of a Group depreciation charge of US\$1.56M, a minor write-off and disposal of assets.

The value of inventories increased by US\$2.50M as the result of more purchases of raw materials.

The decrease in trade and other receivables by US\$818K was due to an improvement in debts collection.

The decrease in trade and other payables by US\$387K to US\$5.12M was largely due to the increase in the payment of raw materials financed under bank trade facilities.

### STATEMENT OF CASH FLOWS

Cash and cash equivalents increased by US\$220K, from US\$8.80M to US\$9.02M.

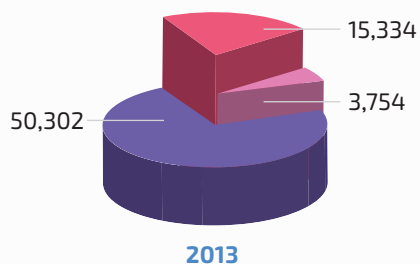
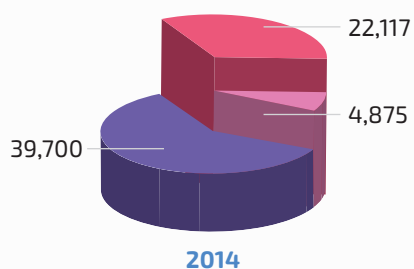
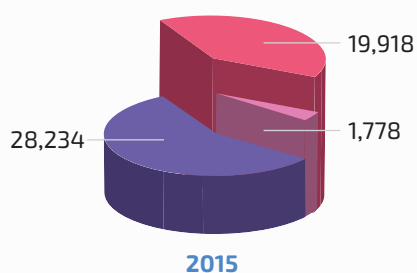
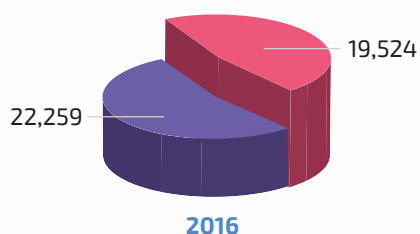
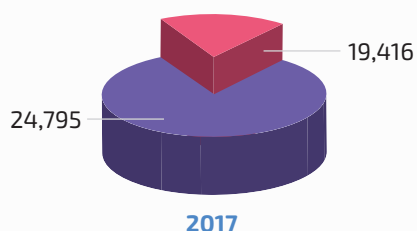
The Group achieved a positive cash flow from its operating activities of US\$2.57M compared with a net profit before tax of US\$4.08M. The decline was largely the result of higher working capital requirement arising from increase in inventories, trade and other receivables and income tax payment.

There was a net cash outflow of US\$1.46M from investing activities, largely due to the acquisition of lease prepayment and property, plant and equipment in Vietnam.

The net cash outflow of US\$1.05M in financing activities was the result of dividend payments of US\$2.26M, offset by proceeds from trust receipts.

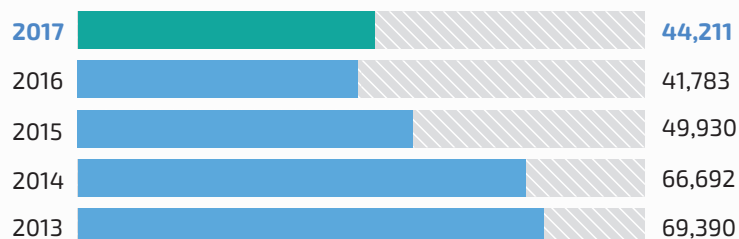
## FINANCIAL HIGHLIGHTS

### REVENUE BY OPERATING SEGMENT (US\$'000)

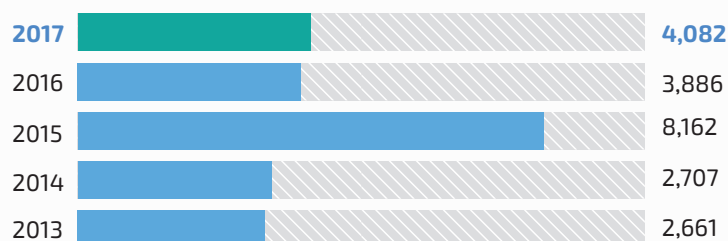


■ Resin Compounding  
■ Polyethylene Packaging  
■ Injection Moulding  
 (Ceased operations in July 2015)

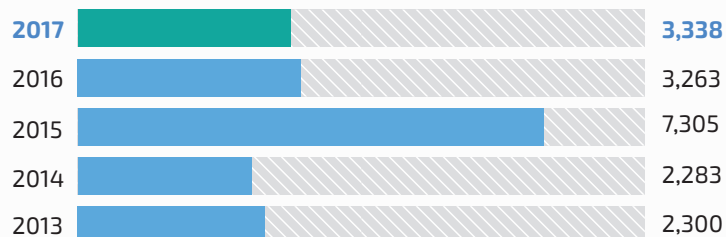
### REVENUE (US\$'000)



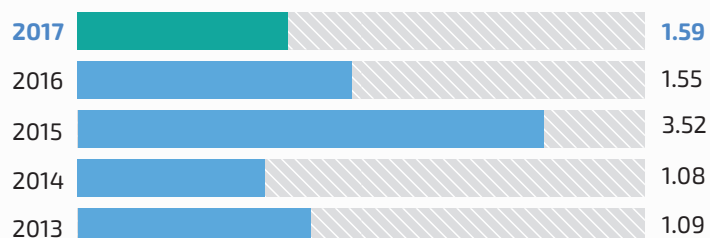
### PROFIT BEFORE TAX (US\$'000)



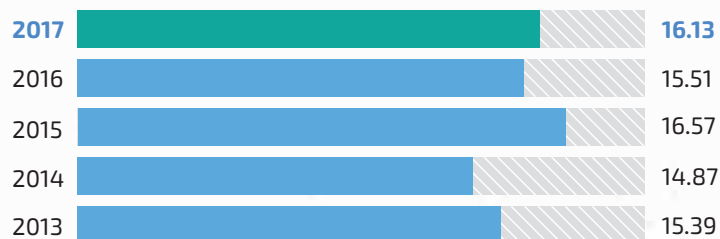
### PROFIT AFTER TAX (US\$'000)



### BASIC AND DILUTED EARNINGS PER SHARE (US CENTS)

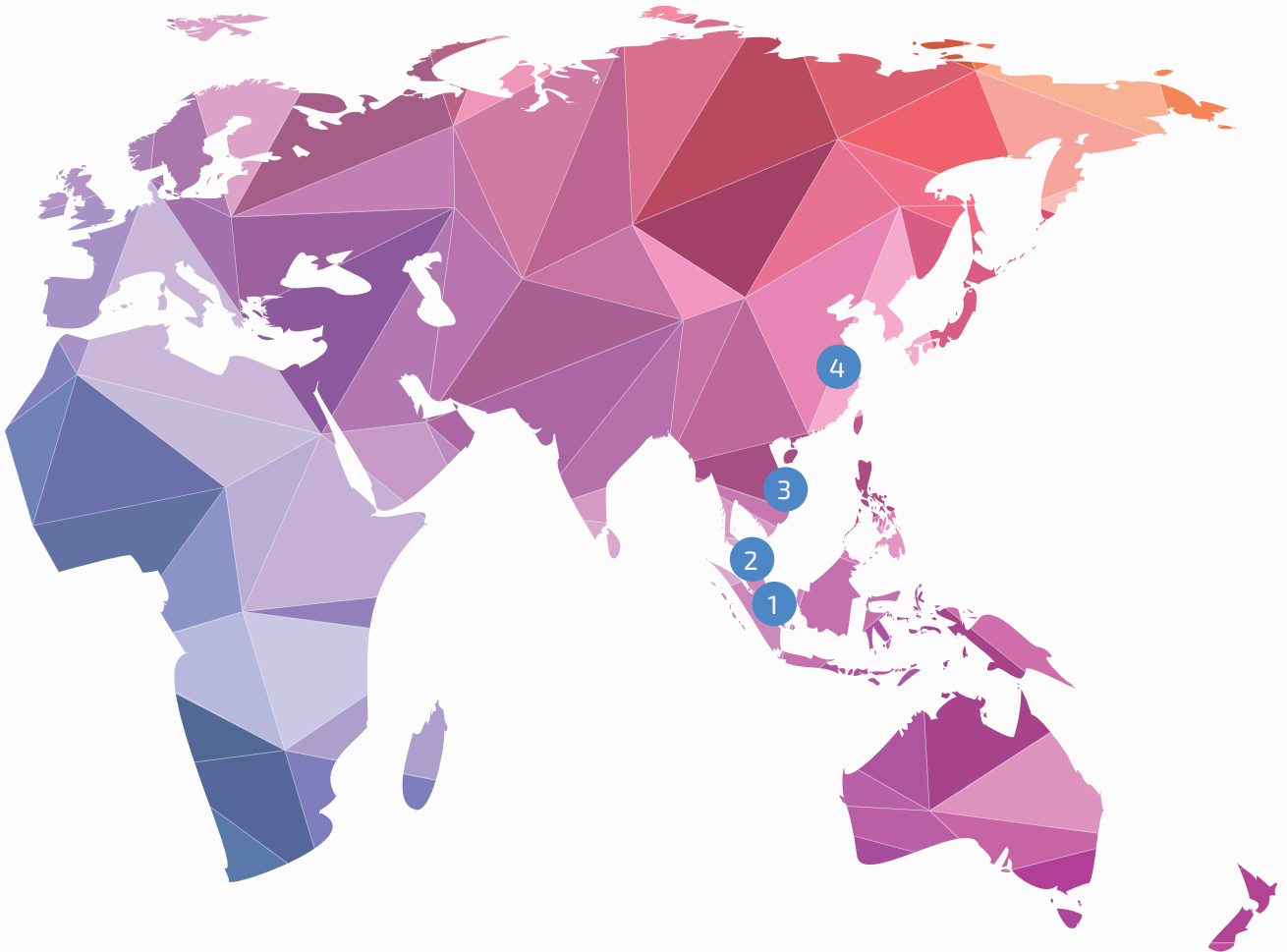


### NET ASSET VALUE PER SHARE (US CENTS)





## STRATEGIC LOCATIONS AND MARKETS



1

**SINGAPORE**

21 Woodlands Close #09-12  
Primz Bizhub  
Singapore 737854

3

**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.

2

**SENAI**

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

4

**SUZHOU**

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

## PRODUCTS AND SERVICES



### 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

### 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.

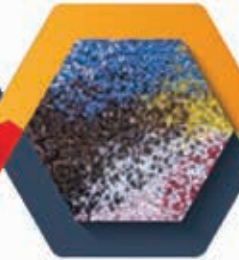
Transparent or opaque, coloured materials are available with tailored matching services.

## PRODUCTS AND SERVICES

### COLOUR COMPOUNDING



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



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

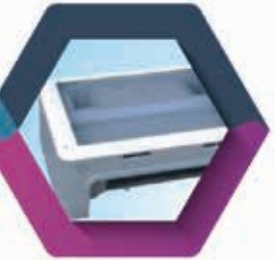
### RESIN COMPOUNDING



### MODIFIED COMPOUNDING



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



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

### POLYETHYLENE PACKAGING



#### HEAVY-DUTY PACKAGING BAGS

- Used for heavy weight packing and storage purposes



#### STRETCH/SHRINK HOOD FOR PALLETISING

- Used by petrochemical, food, industrial application for high speed bulk palletising



#### HEAVY-DUTY FFS ROLLS

- Used by petrochemical companies for high speed mass packaging of plastic resins
- Custom-made according to size, printing, embossing and film performance

## 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 Ltd with Mdm Goh Seok Eng and also Dynamic Way Sdn Bhd ("Dynamic Way") in 1991.

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 TAN LYE HUAT

Lead 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 Fellow Chartered Accountant of Singapore (FCA (Singapore)), 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 FloD) 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 CHONG YEE SIEW SEBASTIAN

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



## BOARD OF DIRECTORS AND KEY MANAGEMENT

Mr Chong served the NUS Business School as an Associate Professor until his retirement. 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.)). He 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 LAW CHEONG YAN

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

Mr Law Cheong Yan was appointed to our Board on 1 July 2017.

Mr Law Cheong Yan is currently the Chief Financial Officer of Chip Eng Seng Corporation Ltd (CES). Prior to joining CES in August 2013, Mr Law spent more than 9 years in China and the US managing the businesses of several overseas subsidiaries of Singaporean companies. Mr Law was an auditor with an international accounting firm from September 1995 to June 1999.

Mr Law holds a Bachelor of Accountancy (Hons) Degree from Nanyang Technological University. He is also a member of ISCA and CPA Australia.

### MR SHABBIR S/O HAKIMUDDIN HASSANBHAI

Non-Executive Director

Mr Shabbir s/o Hakimuddin Hassanbhai was appointed to our Board on 1 July 2017.

Mr Shabbir Hassanbhai serves as an Independent Director in Intraco Group. He is also active in various business and social organisations in Singapore among which he is the Vice Chairman of the Singapore Business Federation; Trustee of the Singapore Indian Development Association (SINDA); Chairman of the Advisory Board of the NTU-SBF Centre for African Studies; Chairman of the School Advisory Committee of Chong Boon Secondary School; Finance Member Ang Mo Kio-Thye Hua Kwan Hospital. He also sits on two listed companies in India involved in port and rail logistics and cold end to end cold chain logistic solutions.

Mr Hassanbhai was conferred the Public Service Medal (PBM) in 2010 and awarded the distinguished Long Service Award by the Ministry of Community Development, Youth and Sports (MCYS) in 2011 for his invaluable volunteer service to the community and awarded a medal for service to education from the Ministry of Education in 2014. He was Singapore's Non-Resident High Commissioner to the Federal Republic of Nigeria from 2008-2017.

Mr Hassanbhai is a Fellow of the Chartered Management Institute and a Member of the Association of Chartered Certified Accountants (ACCA).

### 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. He is a member of the CPA Australia and the Association of International Accountants, UK.

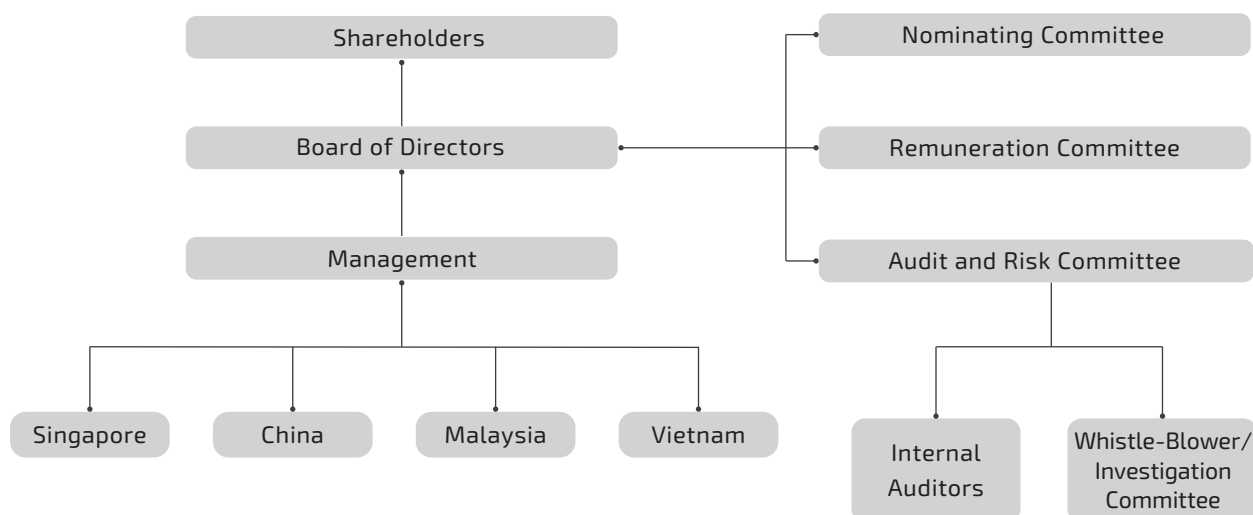


## GROUP STRUCTURE



# 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 Tan Lye Huat (Lead Independent Director)  
Mr Chong Yee Siew Sebastian  
Mr Law Cheong Yan (appointed on 1 July 2017)

### Non-Executive Director

Mr Shabbir s/o Hakimuddin Hassanbhai (appointed on 1 July 2017)

## **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 teleconference and video conference.

During the financial year, the Board held six (6) meetings and the attendance of each Director at every Board and Board committee meeting is as follows:–

2017 Meeting Attendance <sup>(1)</sup>	Board	Audit and Risk Committee	Nominating Committee	Remuneration Committee
<b>Number of Meetings held</b>	<b>6</b>	<b>4</b>	<b>3</b>	<b>2</b>
<b>Number of Meetings attended:</b>				
Yeo Hock Leng	6	N/A	N/A	N/A
Goh Seok Eng	6	N/A	N/A	N/A
Tan Lye Huat	6	4	3	2
Chong Yee Siew Sebastian	6	4	3	2
Law Cheong Yan <sup>(2)</sup>	4	2	N/A	1
Shabbir s/o Hakimuddin Hassanbhai <sup>(3)</sup>	3	N/A	N/A	N/A
Hoon Wee Teng, Will <sup>(4)</sup>	2	N/A	N/A	N/A
Soon Boon Siong <sup>(5)</sup>	1	1	1	1

### Notes

- (1) Refers to meetings held/attended while each Director was in office.
- (2) Mr Law Cheong Yan was appointed to the Board on 1 July 2017.
- (3) Mr Shabbir s/o Hakimuddin Hassanbhai was appointed to the Board on 1 July 2017.
- (4) Mr Hoon Wee Teng, Will resigned from the Board on 1 July 2017.
- (5) Mr. Soon Boon Siong retired upon the conclusion of the AGM held on 21 April 2017.
- (6) 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 2017, 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 Law Cheong Yan and Mr Shabbir s/o Hakimuddin Hassanbhai, attended the courses listed below with attendance hours totalling 69 hours:-

- ACRA Enhanced Auditor's Report Focus Group Discussion
- ACRA-SGX-SID-AC Seminar 2017
- Cybercrime and Business Ethics Compliance
- DBS 2nd Half Outlook
- Impact of Diversity on Directors' Decision Making
- Relevance of Enhanced Auditor's Report to ACs Directors and Management
- SGX Sustainability Roundtable – Catalyst Companies
- SIAS 2017 Corporate Governance Forums
- SID – ACRA-SGX-SID Audit Committee Seminar
- SID – ACRA-SGX-SID AUDIT COMMITTEE SEMINAR 2017
- SID – Corporate Governance Guides for Boards and Board Committees – The Final Launch
- SID – Directors' Financial Reporting Essentials
- SID – Directors' Conference 2017
- SID – Executive and Directors Remuneration
- SID – Financial Reporting Standards Update: Challenges in 2014 and Beyond
- SID – Launch of Board Guide
- SID – Launch of Nominating Committee Guide
- SID – Launch of Remuneration Committee Guide
- SID – Launch of the Board Risk Committee Guide & ASEAN Corporate Governance Scorecard
- SID – Remuneration Committee Essentials
- SID – Singapore Governance and Transparency Index (SGTI)
- SID – Sustainability for Directors Seminar
- SID – The State of Corporate Governance disclosures in Singapore



# CORPORATE GOVERNANCE REPORT

## 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 Nominating Committee 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 Nominating Committee 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 Nominating Committee 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 10 years period, Mr Tan Lye Huat has served for 6 years period). As Mr Chong Yee Siew Sebastian has been serving beyond 9 years in the financial year 2017, the Nominating Committee 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 Nominating Committee 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 Non-Executive Directors constructively challenge and help develop proposals on strategy and review the performance of Management in meeting agreed goals and objectives and monitor the reporting of performance. The salient views and recommendations of Non-Executive Directors are minuted and where applicable are adopted. The Non-Executive Directors communicate amongst themselves by email or telephone on matters concerning the Company and the Independent Directors 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-four (24) 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 Tan Lye Huat as the Lead Independent Director. Mr Tan is the Chairman of the Audit and Risk Committee, and a member of the Remuneration and Nominating Committees. Mr Tan 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.

# CORPORATE GOVERNANCE REPORT

The position of Lead Independent Director of the Company will be rotated annually after the annual general meeting (“AGM”) of the Company. The Company will update the shareholders and the public of its next Lead Independent Director via an announcement through SGXNET.

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

The Group’s Executive Chairman and Group Managing Director is Mr Yeo Hock Leng. Mr Yeo’s role in the Board is to lead the Board in all Board matters; promote communication amongst Directors and between Directors and key management staff; to 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 Chong Yee Siew Sebastian (Chairman);
- (b) Mr Tan Lye Huat; and
- (c) Mr Law Cheong Yan (appointed on 1 July 2017).

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;

## CORPORATE GOVERNANCE REPORT

- (e) give full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future;
- (f) be responsible for identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise;
- (g) before any appointment is made by the Board, evaluate the balance of skills, knowledge and experience on the Board and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Committee shall consider candidates on merit and against objective criteria, taking care that appointees are able to devote sufficient time to the position; and
- (h) keep under review the leadership needs of the 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.

The following Directors are subject to retirement pursuant to the Company's Constitution at the forthcoming AGM:

- (a) Mdm Goh Seok Eng
- (b) Mr. Tan Lye Huat
- (c) Mr. Law Cheong Yan (appointed on 1 July 2017)
- (d) Mr. Shabbir s/o Hakimuddin Hassanbhai (appointed on 1 July 2017)

## CORPORATE GOVERNANCE REPORT

The NC recommended that the Directors above be nominated for re-election at the forthcoming AGM. In making the recommendation, the NC had considered their overall contribution and performance.

Each member of the NC abstains from voting on any resolutions in respect of the assessment of his performance or re-nomination as Director.

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

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

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

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

The Board has adopted internal guidelines addressing competing time commitments that are faced when Directors serve on multiple boards. The guidelines provide that each full-time Director should hold not more than six (6) listed company representations. All Directors are also required to submit to the NC details of other directorships held by them during the financial year as well as information on other major appointments including full-time employment. In such submission, they are required to confirm that they have sufficient time to pay attention to the affairs of the Company. Having reviewed the submissions, in respect of FY2017, 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.

### **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) 21 April 2017	Executive and Non-Independent	Executive Chairman – Board  Group Managing Director	Nil	Nil	NA
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	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 Lead 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	Retirement pursuant to Article 103
Mr Chong Yee Siew Sebastian FCA (Singapore), FCPA Australia, MEc Syd, BAcc (Hon) Sing	(a) 24 September 2007 (b) 18 April 2016	Non-Executive and Independent	Chairman – Nominating and Remuneration Committees  Member – Audit and Risk Committee	Nil	Managing Director, Financial Info Analysis Pte Ltd	NA
Mr Law Cheong Yan FCA (Singapore), FCPA Australia	(a) 1 July 2017 (b) –	Non-Executive and Independent	Member – Audit and Risk, Nominating and Remuneration Committees (from 1 July 2017)	Nil	Chief Financial Officer – Chip Eng Seng Corporation Ltd	Retirement pursuant to Article 107
Mr Shabbir s/o Hakimuddin Hassanbhai FCMI, ACCA	(a) 1 July 2017 (b) –	Non-Executive and Non-Independent	Member – Board (from 1 July 2017)	Intraco Limited	Independent Director, Chairman, Nominating Committee and Remuneration Committee AND Member, Audit Committee of Intraco Limited	Retirement pursuant to Article 107

# 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 Directors in self-evaluation and peer review, applying the performance criteria recommended by the NC and approved by the Board. Individual evaluations are aimed to assess whether each Director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for meetings of the Board and Board Committees, and any other duties). 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. Arising from the results of the performance evaluation, the NC may advise the Executive Chairman and the Board to take appropriate actions to improve the effectiveness of the Board as a whole.

#### 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

# CORPORATE GOVERNANCE REPORT

## 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

The NC, without the engagement of an external facilitator, has performed the assessment for FY2017 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. The Board should have separate and independent access to Management and Directors are entitled to request from Management and be provided with such additional information as needed to make informed decisions in a timely manner. Information provided should include board papers and related materials, background or explanatory information relating to matters to be brought before the Board, and copies of disclosure documents, budgets, any material variance between the projections and actual results should also be disclosed and explained. In addition, Management is required to provide the Board with monthly financial and management reports.

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

Directors have separate and independent access to the Company Secretary at all times. The Company Secretary's appointment and removal is a matter for the Board as a whole. Her role is defined in the appointment letter and covers both regulatory and procedural matters. The Company Secretary or her representative attended all scheduled FY2017 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.

# CORPORATE GOVERNANCE REPORT

## 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 Tan Lye Huat; and
- (c) Mr Law Cheong Yan (appointed on 1 July 2017).

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. In 2012 and 2015, remuneration advice was sought from independent consultants, Freshwater Advisers Pte Ltd.

# CORPORATE GOVERNANCE REPORT

## Guideline 7.4: Fair and Reasonable Termination Terms

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

## LEVEL AND MIX OF REMUNERATION

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

## Guidelines 8.1: Remuneration of Executive Directors

The Company sets remuneration packages which:

- (a) align interests of Executive Directors with those of shareholders;
- (b) link rewards to corporate and individual performance; and
- (c) are competitive and sufficient to attract, retain and motivate Directors and senior management with adequate experience and expertise to manage the business and operations of the Group.

The performance-related elements of the Executive Directors are governed by their service agreements which since the listing of the Company on the SGX-ST on 23 November 2007 provided them with annual profit sharing incentive bonus (the "Incentive Bonus") based on the consolidated net profit before 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 include a profit sharing scheme designed to incentivise them to achieve higher profits for the Company over the long term. The Company also had in place an employee share option scheme which, however, had not been implemented since its approval by shareholders on 26 September 2007 (see Guideline 9.5 on page 29). The scheme expired on 26 September 2017. 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 FY2017 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.



# CORPORATE GOVERNANCE REPORT

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 FY2017 to apply in FY2018 as shown in the table below.

	Proposed for FY2018			FY2017		
	Annual Fees (S\$)		Meeting Allowance	Annual Fees (S\$)		Meeting Allowance
	Chairman	Member		Chairman	Member	
Board	45,000	33,000	NIL	40,000	30,000	NIL
Audit	20,000	12,000	NIL	16,000	10,000	NIL
Nominating	10,000	5,000	NIL	8,000	4,000	NIL
Remuneration	12,000	6,000	NIL	8,000	4,000	NIL
Lead Independent	N/A	5,000	NIL	N/A	4,000	NIL

If these fees are approved and there is no change to the Board and Committee membership, the total fees for FY2018 will amount to S\$225,000.

Directors' fees are only payable to Non-Executive Directors. The FY2017 fees and proposed fees for FY2018 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.**

## 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 FY2017.

# CORPORATE GOVERNANCE REPORT

The remuneration paid to the Directors for services rendered during FY2017 are as follows:-

Director	Director's Fees	Salary & CPF	Bonus & Other Variable Performance Components	Total Remuneration (S\$'000)
Yeo Hock Leng	–	375 55.8%	297 44.2%	672 100%
Goh Seok Eng	–	319 60.4%	209 39.6%	528 100%
Chong Yee Siew, Sebastian	56 100%	–	–	56 100%
Law Cheong Yan	24 100%	–	–	24 100%
Tan Lye Huat	57 100%	–	–	57 100%
Shabbir s/o Hakimuddin Hassanbhai	15 100%	–	–	15 100%
Soon Boon Siong	16 100%	–	–	16 100%
Total Remuneration (S\$'000)	168 12.3%	694 50.7%	506 37.0%	1,368 100%

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

## 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	Bonus & Other Variable Performance Components	Total
Below S\$250,000	Lim Teck Shu	81.3%	18.7%	100%
	Chong Wei Guan	80.1%	19.9%	100%
	He Fong Wei	77.4%	22.6%	100%
	Sim Jian Jie Eddie	73.0%	27.0%	100%
	Xie Chunrong	78.2%	21.8%	100%
	Total Remuneration (S\$'000)	78.2% 348	21.8% 97	100% 445

The aggregate remuneration paid to the above personnel was S\$444,881 in FY2017.

# 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 9.4: Employee Related to Directors/CEO

For FY2017, 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 General 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 expired on 26 September 2017 and there are no plans for its renewal.

## 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 to shareholders and other stakeholders in a timely manner.

# CORPORATE GOVERNANCE REPORT

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. This representation furnishes an overall representation to the Audit and Risk Committee and the Board confirming, inter alia, that the financial processes and controls, and the integrity of the Group's financial statements are in place, highlighting material financial risks and impacts and providing updates on significant financial issues of the Group. 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 annually 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 FY2017. The Company received signed undertakings from all its Directors and executive officers based on the revised form of Appendix 7.7, pursuant to Listing Rule 720(1) of the SGX-ST Listing Manual.

## **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.

During FY2017, the Audit and Risk Committee assisted the Board to oversee Management in the design, implementation and monitoring of the risk management and internal control systems and the Audit and Risk Committee reported to the Board on critical risk issues, material matters, findings and recommendations pertaining to risk management.

# CORPORATE GOVERNANCE REPORT

## Risk Management

Since FY2014, the Group implemented an Enterprise Risk Management (“ERM”) framework to monitor its risk management capabilities. A total of 22 risks have been identified and classified under 5 categories, namely business and strategic risks, financial risks, operational risks, compliance 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.

## Risk Management Principles

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.

Risks that affect the achievement of the business objectives and financial performance of the Group over a short-to-medium term are summarised in the Group risks register. A review of risk register with key management personnel were conducted on key risks to the respective entity based on current controls in place, or termed residual risks. Risks identified are rated in terms of likelihood and impact, entailing the tolerable exposures as well as those requiring close attention. Risk matrix tables summarized the top risks to the Group, which were derived through the Risk Rating and discussion with the key management personnel of the respective entities.

## Risk Tolerance

The Group has put in place three risk tolerance guiding principles serve to determine the nature and extent of the significant risks, which the Group is willing to take in achieving its strategic objectives.

These principles are:

1. Risk taken should be carefully evaluated, commensurate with rewards and in line with the Group’s strategic objectives.
2. Risk arising from a single area of operation, investment or undertaking should not be so huge as to endanger the entire Group.
3. Risk arising from safety breaches or lapses, non-compliance with laws and regulations, fraud, bribery and corruption, are not acceptable.

## CORPORATE GOVERNANCE REPORT

The Group adopts a balanced approach to risk management. We recognize that not all risks can be eliminated, and we will only undertake appropriate and well considered risks to optimise returns for the Group.

We remain vigilant against emerging threats that may affect our different businesses. Through close collaboration with stakeholders, we will continue to review our risk management system to ensure that it remains adequate and effective.

The CEO and the CFO are responsible in implementing the Company's strategy, strengthening the Group's risk management culture, ensuring the overall framework of risk management is comprehensive and responsive to changes in the business, and managing the internal audit function. They regularly review the completeness and accuracy of risk assessments, risk reporting and the adequacy of risk mitigation efforts. The CEO and the CFO, in turn, place reliance on their business unit teams to monitor and manage operational risks on an ongoing basis, and to identify emerging risks.

Our ERM system is designed to provide reasonable, but not absolute, assurance that the Group's assets are safeguarded, the risks facing the business are being assessed and all information that may be required to be disclosed is reported to the Board through the Audit and Risk Committee. We have reviewed the current ERM framework and are of the view that it remains appropriate for the financial year ended 31 December 2017.

The internal audit function is outsourced to UHY Lee Seng Chan & Co. which provides independent checks on operational issues and risk controls, and reports directly to the Audit and Risk Committee.



### No Threat to Going Concern

After making due inquiry, we are satisfied that as on 31 December 2017, there were no risks that could affect the ability of the Group to continue as a going concern in the next twelve months.



# CORPORATE GOVERNANCE REPORT

Risk Matrix Table

<b>Impact</b> 	Extreme					
	High		* Compliance	* Business Continuity	* Competition	
	Medium		* Financial Management	* Information Technology * Customer * Human Resource	* Political, Regulatory & Industry * Price	
	Low				* Work Health & Safety	
	Negligible					
		Rare	Unlikely	Possible	Likely	Certain
		<b>Likelihood</b> 				

Risk Exposure and Appetite Table

Risk Level	Risk Appetite	Action requirement
Extreme	Not acceptable	Immediate action required
High	Senior management attention	Management responsibility specified
Medium	Tolerable	Treatment plan to be developed
Low	Acceptable	Ongoing monitoring and review
Negligible	Acceptable	Managed by routine process and procedures

# CORPORATE GOVERNANCE REPORT

## Key Risk Profile 2017

The key risks that have been identified are closely monitored on our risk landscape in light of the changing business environment.

### Business and Strategic Risk

Business strategy risks involves a process of identifying, assessing and managing risks and uncertainties factors that could impede the Group's ability to achieve its strategy objectives, such as customer demand, revenue attainment, macro-economic conditions, competition and regulatory environment. They are normally managed by the respective business units in the Group in their pursuit of growth and meeting its earnings target.

DESCRIPTION OF RISKS	WHAT WE DO TO MITIGATE THE RISKS
<p>Business Continuity Risk</p> <ul style="list-style-type: none"> <li>• Business continuity is affected by market driven forces, evolving competitive landscape, changing customer demands and disruptive innovation.</li> <li>• The Group remains vulnerable to a number of external factors including uncertainties in the global economy, implications from geo-political developments on globalisation and threats of disruptive technology.</li> <li>• The Group may face business continuity risks associated with heavily reliance on relatively on few key customers.</li> <li>• Any significant changes in product requirements of key customers may have a significant impact on the Group's operations and performance.</li> </ul>	<ul style="list-style-type: none"> <li>• The Group engages in regular communications with its key customers to ensure continuous flows of market information.</li> <li>• The Group actively develops its market shares in toll compounding services and applies collaboration strategy with the customers.</li> <li>• The Group operates its business in different region to reduce its vulnerability to customer and market concentration.</li> </ul>

# CORPORATE GOVERNANCE REPORT

DESCRIPTION OF RISKS	WHAT WE DO TO MITIGATE THE RISKS
<p><b>Competition Risks</b></p> <ul style="list-style-type: none"> <li>Sluggish economic growth globally has led to declining global economic activity. The shift of macroeconomic conditions in the countries where the Group operates may adversely affect the Group's performance.</li> <li>Relatively reliance on few key customers may be a disadvantage and severely impacted should the major customers pull out their orders.</li> <li>Changes in the design of customers' product to more compact size may adversely impact demand of resins.</li> </ul>	<ul style="list-style-type: none"> <li>The Group monitors changes in key economic indicators and keeps itself updated on potential changes in the countries where it operates.</li> <li>The Group strives to sustain its competitiveness through quality product delivery and differentiation in its service delivery to customers.</li> <li>The Group maintains a lean organisation structure which is responsive and easily adaptable to changing market conditions and business environment.</li> </ul>
<p><b>Customer Risk</b></p> <ul style="list-style-type: none"> <li>Risks associated with loss of customers in delivery performance. Possible causes are uncompetitive pricing, unsatisfactory product quality, inadequate service delivery or extended delivery lead times.</li> <li>The Group may face decreased customer base due to highly competitive business environments.</li> </ul>	<ul style="list-style-type: none"> <li>The Group continues to maintain sound relationship and good communication with its customers through regular and personalized interactions with value-added service delivery.</li> <li>The Group ensures quality, reliability, costs competitive and timely delivery to customers.</li> <li>The Group initiates improvement efforts via regular communication and feedbacks from the Customer Satisfaction Survey Form.</li> </ul>

## CORPORATE GOVERNANCE REPORT

DESCRIPTION OF RISKS	WHAT WE DO TO MITIGATE THE RISKS
<p>Political, Regulatory and Industry Risks</p> <ul style="list-style-type: none"> <li>• Risk arising from uncertain in political conditions; changes in government policies, laws and regulations in the countries where the Group operates may adversely affect the Group's performance or business conduciveness.</li> <li>• The Group may expose fluctuations and also supply and demand cycles of the commodities and petro-chemical industries.</li> </ul>	<ul style="list-style-type: none"> <li>• The Group monitors changes in political and industry conditions in countries where it operates and keeps itself updated on changes of regulations by the authorities.</li> <li>• The Group maintains close working relationship with advisors and local authorities so as to keep abreast with any changes.</li> <li>• Locals are recruited at the place where the business units operate to ensure compliance and provide timely update to the head office on any material changes in political, regulatory or industry developments.</li> </ul>

### Financial Risks

Financial risks arise from volatility in the underlying financial market and include factors such as operational liquidity, foreign exchange, equity prices, credit risks, interest rates, foreign investment and currency risk.

DESCRIPTION OF RISKS	WHAT WE DO TO MITIGATE THE RISKS
<p>Financial Management Risk</p> <ul style="list-style-type: none"> <li>• The Group relies on self-assessment, review and reporting process from the business units to ensure that transactions are carried out in conformity with the accounting standards and Group accounting policies and that the internal controls are adequate and effective.</li> <li>• The operational management control system may not fully prevent or detect all frauds or misstatements in a timely manner.</li> <li>• Changes in conditions or operations may cause system effectiveness to vary from time to time.</li> </ul>	<ul style="list-style-type: none"> <li>• The Group has its operational policies and guidelines in place and the internal audit function has been outsourced.</li> <li>• Internal controls over financial reporting are reviewed regularly.</li> <li>• On an annual basis, the head of business units and the head of finance, are to report the results of their self-review in their management representation letter.</li> <li>• The management representation letter also serves as a platform for all business units' operating and finance heads to highlight any transactions and/or events which may have material or potential financial impact to the Group.</li> </ul>

# CORPORATE GOVERNANCE REPORT

<p>Price Risk</p> <ul style="list-style-type: none"> <li>Commodity products are subject to price volatility. Variability and volatility in pricing trends on crude oil price, commodities and petro-chemical materials may have an adverse impact on the Group's performance.</li> </ul>	<ul style="list-style-type: none"> <li>This is an inherent risk that the Group cannot avoid.</li> <li>The Group keeps abreast of developments in global markets and key price indicators.</li> <li>In times of low materials price, the Group may apply storing strategy for future price gain. However, this strategy is managed together with costs associated with storage, such as holding costs, spoilage, labour and insurance costs.</li> <li>The Group works closely with principal customers to counteract prevailing intense competition so as to develop a price-sensitive and value-added service delivery to customers.</li> </ul>
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## Operational Risks

Operational risk refers to the risk of a change in value of business that caused by persons, processes, products, information technology and practices in the business activities, which does not operate as designed or planned.

DESCRIPTION OF RISKS	WHAT WE DO TO MITIGATE THE RISKS
<p>Human Resource Risk</p> <ul style="list-style-type: none"> <li>The Group depends on the services of qualified and skilled personnel for business continuity.</li> <li>Succession plan execution is a challenge given the size of the Group.</li> <li>Government regulatory system may impose restriction on employment of foreign workers.</li> <li>Neighborhood region of the Group with more attractive salary scheme or currency conversion rate may cause to additional challenges in recruitment initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>The Group provides a safe and healthy working environment, appropriate on-job training and career development opportunities to nurture and retained its employees.</li> <li>The Group offer competitive remuneration packages based on job performance and pre-determined key performance indicators.</li> <li>The Group sources its labour supplies from foreign workers market where local recruitment is ineffective.</li> <li>Outsourcing or recruitment via labour supply agency or recruitment firm for selected position.</li> </ul>

## CORPORATE GOVERNANCE REPORT

<p>Work Health and Safety Risk</p> <ul style="list-style-type: none"> <li>The Group is exposed to work health and safety risks of employees arising from incidents in the manufacturing and production process, pandemics, etc.</li> </ul>	<ul style="list-style-type: none"> <li>The Group has its workplace safety health and environment policy in place to cultivate a safety-consciousness culture at all levels.</li> <li>Proper safety protective personal equipment is always in place to minimize exposure to hazards that cause serious workplace injuries and illnesses.</li> <li>Disease pandemic preparedness plan is in place to ensure quick resumption of critical business functions.</li> <li>Refresher drills on fire safety, emergency evacuation and first aid response are conducted regularly.</li> </ul>
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### Compliance Risks

Compliance risk is exposure to legal penalties, financial forfeiture and material loss an organization faces when it fails to act in accordance with industry laws and regulations, internal policies or prescribed best practices.

DESCRIPTION OF RISKS	WHAT WE DO TO MITIGATE THE RISKS
<p>Compliance Risk</p> <ul style="list-style-type: none"> <li>There have been rapid changes in laws, regulations and practices making compliance more complicated.</li> <li>The Group's internal control systems and related framework may not be kept up-to-date in time.</li> </ul>	<ul style="list-style-type: none"> <li>The Group engages external consultants, lawyers, regulators, insurance companies or service providers or guidance and for answering compliance questions.</li> <li>Internal controls, risk management and corporate governance framework, and control self-assessment processes have been in place and are reviewed on an annual basis.</li> <li>Internal auditors are engaged for internal control effectiveness assessment and review.</li> <li>External auditors are engaged for statutory audit and internal auditors are engaged to conduct operations review; both report directly to the Audit and Risk Committee.</li> <li>Whistle-blowing Policy is in place.</li> </ul>



# CORPORATE GOVERNANCE REPORT

## Information Technology Risk

IT risk include hardware and software failure, human error, spam, viruses and malicious attacks, as well as natural disasters such as fires, cyclones or floods.

DESCRIPTION OF RISKS	WHAT WE DO TO MITIGATE THE RISKS
<p>Information Technology Risks</p> <ul style="list-style-type: none"> <li>The Group is susceptible to information technology risks which are a constantly evolving threat to achieve our business functions and objectives.</li> <li>Security failings and network disruptions in the information-driven operating environment can result in significant long-term expense and damage consumer trust and brand reputation, business downtime, loss of data or productivity loss.</li> <li>Sensitive business information, intellectual property, and control of key equipment are increasingly at risk from cyber-attack.</li> </ul>	<ul style="list-style-type: none"> <li>The Group implements off-site back-up tapes for its disaster recovery plan at all business units.</li> <li>The Group has its Information Technology Policy in place to ensure the integrity and availability of information while preventing unauthorised access to the Group's information systems.</li> <li>Limit and control the access password to network system.</li> <li>At site ERP system maintenance contract in place for all business units.</li> </ul>

## 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. The system of internal controls and risk management established by the Group provides reasonable, but not absolute, assurance that the Group will not be adversely affected by any event that can be reasonably foreseen as it strives to achieve its business objectives. However, the Board also notes that no system of internal controls and risk management can provide absolute assurance against the occurrence of material errors, poor judgement in decision making, human error, losses, fraud or other irregularities.

## 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.

## CORPORATE GOVERNANCE REPORT

### **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 business and strategic, financial, operational, compliance and information technology risks as at 31 December 2017.

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.

As part of the Group's continuous efforts to ensure that its risk management and internal control systems are adequate and effective, the Company is not only working towards strengthening the existing policies by conducting regular reviews to ensure that they remain relevant but is also implementing new ones where necessary so as to meet challenges brought on by a changing business environment.

### **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 2017 give a true and fair view of the Group's operations and finances; and
- (b) The system of risk management and internal controls in place within the Group is adequate and effective in addressing the material risk in the Group in its present business environment including material financial, operational, compliance and information technology risks.

Based on the framework of risk management controls elaborated in 11.1 above 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 2017.

# CORPORATE GOVERNANCE REPORT

## 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. In February 2015, the Audit Committee was renamed as Audit and Risk Committee. The ARC reviews key risk categories on a bi-annually basis to ensure that the activities of the business remain within the Group's risk appetite.

## AUDIT AND RISK COMMITTEE ("ARC")

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

## Guideline 12.1: ARC Membership

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

- (a) Mr Tan Lye Huat, Chairman
- (b) Mr Chong Yee Siew Sebastian
- (c) Mr Law Cheong Yan (appointed on 1 July 2017)

## Guideline 12.2: Expertise of ARC Members

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

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

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

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

- (a) reviewing and evaluating financial and operating results and accounting policies;
- (b) reviewing the annual audit plans (Internal and External), their evaluation of the system of internal accounting controls and their audit reports;
- (c) reviewing the overall system of internal control and risk management system including their adequacy and effectiveness;

## CORPORATE GOVERNANCE REPORT

- (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.

Minutes of the ARC meetings are routinely tabled at Board meetings for information.

During FY2017, the ARC reviewed and if appropriate, approved all disclosable interested person transactions in accordance with the Shareholders' Mandate for Interested Person Transactions. Directors who are interested in the transaction had recused themselves from the deliberation and approval process in both the ARC and the Board deliberation. On a half yearly basis, the ARC also reviewed the financial results announcements of the Company and the Group before their submission to the Board for approval.

The ARC had reviewed the external auditor's audit plan for FY2017 and had agreed with the auditor's proposed significant areas of focus and assumptions that impact the financial statements. In ARC's review of the financial statements of the Group for FY2017, it had discussed with Management the accounting principles that were applied and their judgement of items that could affect the integrity of the financial statements and also considered the clarity of key disclosures in the financial statements. The ARC also reviewed and addressed, amongst other matters, the following key audit matters as reported by the external auditors for FY2017:

- Impairment of property, plant and equipment
- Reversal of impairment loss on investment in Suzhou Chemical & Light Industry Co., Ltd.

The Management reported to and discussed with the ARC on changes to the accounting standards and accounting issues which have a direct impact on the financial statements, had also been invited to attend relevant seminars on changes to accounting standards and issues by leading accounting firms.

Following the review, the ARC is satisfied that all the aforesaid matters have been properly dealt with and recommended the Board to approve the financial statements. The Board has on 20 March 2018 approved the financial statements.

The ARC has explicit authority to investigate any matter including whistle-blowing within its Terms of Reference. All whistle-blower complaints were reviewed by the ARC to ensure independent and thorough investigation and adequate follow-up. The Company has maintained a whistle-blowing register to record all the whistle-blowing incidents. The contents including "nil" returns in the register is reviewed by the ARC at its quarterly meetings.

The ARC has full access to, and has had the full co-operation of the Management and staff. It also has full discretion to invite any Director or any member of the Management to attend its meetings.

# CORPORATE GOVERNANCE REPORT

## 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.

## 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 sustainability reporting and tax advisory services to the Group. A breakdown of the fees paid or payable to the External Auditors and its member firms for audit and non-audit services, which can be found in (Note 21) page 100 of the Financial Statements in this Annual Report, are analysed in the table below:-

<b>FY2017</b>	<b>US\$</b>	<b>% of Total Fees</b>
Total Audit Fees	80,770	88.9
Total Non-audit Fees	10,043	11.1
Total Fees	90,813	100

The ARC reviewed and is of the view that the non-audit services in sustainability reporting and tax advisory provided by the External Auditors in FY2017 will not prejudice the objectivity and independence of the external auditors. The ARC had recommended and the Board had accepted proposing to shareholders, the reappointment of Messrs. BDO LLP as the independent auditors for the Group in the ensuing year. Accordingly, the Company has complied with Listing Rule 1207(6) in relation to the Company's appointment of auditing firms.

The Company has complied with Rule 712 and 715 of the SGX Listing Manual in relation to its auditing firms as Messrs. BDO LLP and the overseas member firms of the BDO network in the respective countries have 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.

The whistle-blower can report to the ARC members via dedicated email ([arc@dynamiccolours.com](mailto: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.

# CORPORATE GOVERNANCE REPORT

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.

The Whistle-Blowing Committee consists of ARC members and is empowered to:

- i. look into all issues/concerns relating to the Group (except for those directed specifically to or affecting any member of the WBC which are dealt with by the ARC);
- ii. make the necessary reports and recommendations to the ARC or the Board for their review and further action, if deemed required by them; and
- iii. access the appropriate external advice where necessary and, where appropriate or required, report to the relevant governmental authorities for further investigation/action.

## Guideline 12.8: Activities of ARC

During the year, the ARC held four (4) scheduled meetings which all members attended as disclosed under Guideline 1.4.

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

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 regards to the "Comply or Explain" regime.

In FY2017, members of ARC and the Board were also briefed by the Management on the application of IFRS 1 (First-time adoption of International Financial Reporting Standards) in the transition of the Group to Full IFRS Convergence, the implications of all the transition requirements in IFRS 1, and the Group's process of preparing for Full IFRS Convergence in 2018. Full IFRS Convergence is to be adopted from 1 January 2018 with retroactive application, unless a specific exemption or relief is provided in IFRS 1. The ARC and the Board were provided with an impact analysis of IFRS 1 on the Group's financial statements, summarised below:

### Mandatory Adjustments

- Revenue from Contracts with Customers
- Leases
- Property, Plant and Equipment

### Standards Financial Impact

- No impact
- Impact in FY2018 Financial Statements
- No impact

### Potential Mandatory Adjustment

- The Effects of Changes in Foreign Exchange Rate
- Income Taxes
- Uncertainty over Income Tax Treatments
- Foreign Currency Transactions and Advanced Consideration
- Intangible Assets

### Standards Financial Impact

- No impact
- Impact in FY2018 Financial Statements
- No impact
- No impact
- No impact



# CORPORATE GOVERNANCE REPORT

## **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.

#### **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. The ARC assesses the adequacy of the IA function through the review of the IA's audit plan and the quality of its reports and was satisfied that the internal audit function was adequate and effective.

# CORPORATE GOVERNANCE REPORT

## 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.

## 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.

# CORPORATE GOVERNANCE REPORT

## **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.

### **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.

# CORPORATE GOVERNANCE REPORT

## **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 2017.

## **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 2017 and the statement of financial position and statement of changes in equity of the Company as at 31 December 2017.

### 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 2017, 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

Tan Lye Huat

Chong Yee Siew Sebastian

Law Cheong Yan

(Appointed on 1 July 2017)

Shabbir s/o Hakimuddin Hassanbhai

(Appointed on 1 July 2017)

### 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.

# DIRECTORS' STATEMENT

## 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
<b>The Company:</b>				
(No. of ordinary shares)				
Yeo Hock Leng	27,839,496	27,839,496	20,760,684	20,760,684
Goh Seok Eng	20,760,684	20,760,684	27,839,496	27,839,496

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 2018 in the shares of the Company have not changed from those disclosed as at 31 December 2017.

## 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.



# DIRECTORS' STATEMENT

## 6. Audit and Risk Committee

The members of the Audit and Risk Committee (“ARC”) during the financial year and at the date of this statement are:

Tan Lye Huat (Chairman)	Non-Executive and Lead Independent Director
Chong Yee Siew Sebastian	Non-Executive and Independent Director
Law Cheong Yan	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 annual audit plans of the internal and external auditor and the results of the auditors’ examination and evaluation of the Group’s overall systems of internal accounting controls and risk management system including their adequacy and effectiveness;
- (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 auditor;
- (f) the adequacy of the outsourced internal audit function;
- (g) the re-appointment of the external auditor of the Company;
- (h) interested person transactions;
- (i) acquisitions and realisations transactions; and
- (j) other regulatory compliance matters as required by law or the code.

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.

## DIRECTORS' STATEMENT

### 6. **Audit and Risk Committee** (Continued)

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

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**Yeo Hock Leng**  
Director

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**Goh Seok Eng**  
Director

Singapore  
20 March 2018

# 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"), which comprise:

- the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017;
- the consolidated statement of comprehensive income, consolidated statement of changes in equity, 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 2017, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes of 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
<b>1) Impairment of property, plant and equipment</b>	
<p>The Group's property, plant and equipment ("PPE") consists mainly leasehold factory buildings and plant and machinery.</p> <p>During the financial year, the Group carried out an impairment assessment of its PPE. In the assessing whether there is indication that any PPE may be impaired, management considered the following indications:</p> <ul style="list-style-type: none"> <li>• observable indication that the PPE's value has declined during the financial year. In this regard, management engaged independent valuers to perform valuations on the Group's land and buildings in Malaysia and the People's Republic of China;</li> <li>• evidence of obsolescence or physical damage to the PPE;</li> <li>• significant changes which may result in the PPE becoming idle and any plans to discontinue or restructure the business operations; and</li> <li>• operating losses or significant decline in budgeted cash flows from the PPE.</li> </ul> <p>Based on management's assessment, there are no indications of impairment on the Group's PPE and no further determination of the PPE's recoverable amounts is required.</p> <p>We have determined this area to be a key audit matter as the carrying amount of the Group's PPE of US\$15.6 million represents 37% of the Group's total assets in the consolidated statement of financial position as at 31 December 2017. Significant audit effort has also been spent in evaluating management's assessment on indications of impairment of PPE.</p>	<p>We focused our procedures on evaluating management's assessment of indications of impairment of the PPE which included, amongst others, the following:</p> <ul style="list-style-type: none"> <li>• Evaluated the revenue, gross profit margin and net profitability of the respective cash-generating units to which the PPE are allocated;</li> <li>• Perused the utilisation reports for the production lines in Malaysia and the People's Republic of China, and discussed with management on the budgeted and projected production volume;</li> <li>• Performed physical sighting of PPE on a sampling basis; and</li> <li>• Obtained the valuation reports and assessed the valuation methodology adopted and key assumptions used by the respective independent valuers.</li> </ul>
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)

## Key Audit Matters (Continued)

KEY AUDIT MATTER	AUDIT RESPONSE
<b>2) Reversal of impairment loss on investment in Suzhou Huiye Chemical &amp; Light Industry Co., Ltd</b>	
<p>The original cost of the Company's investment in Suzhou Huiye Chemical &amp; Light Industry Co., Ltd was US\$5.1 million. In the previous financial years, an impairment loss of US\$1.6 million was recognised and the carrying amount of the cost investment was US\$3.5 million as at beginning of the financial year.</p> <p>During the financial year, the cost of investment was reduced to US\$1.2 million due to a capital reduction exercise carried out in November 2017.</p> <p>Management further assessed that there is indication that the impairment loss may no longer exist. Based on the discounted cash flows forecast prepared by management to estimate the recoverable amount of the investment in the subsidiary, a full reversal of US\$1.6 million was recognised in profit or loss during the financial year.</p> <p>The determination of the recoverable amount involves significant management judgements in making key assumptions regarding the revenue growth rate, gross profit margin growth rate and the discount rate.</p> <p>We have determined this area to be a key audit matter as significant audit effort was required in evaluating the reasonableness of the key assumptions made by management.</p>	<p>Our procedures included, amongst others, the following;</p> <ul style="list-style-type: none"> <li>• Checked that the cash proceeds from the capital reduction exercise was received by the Company and obtained a copy of the subsidiary's new share certificate;</li> <li>• Discussed with management and evaluated their assessment of the indication of the reversal of impairment loss that was recognised previously;</li> <li>• Assessed the reasonableness of the key assumptions used by management in the discounted cash flow forecast. We: <ul style="list-style-type: none"> <li>– Evaluated the revenue growth rate and gross profit margin growth rate by referencing to historical performance and benchmarked the discount rate against external market data; and</li> <li>– Performed sensitivity analysis to assess the impact on the recoverable amount of the investment by reasonable possible changes to the revenue growth rate, gross profit margin growth rate and the discount rate.</li> </ul> </li> </ul> <p>Assessed the adequacy of the disclosure in the financial statements with respect to the reversal of the impairment loss.</p>
Refer to Notes 7 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, which we obtained prior to the date of this auditor's report, and the Sustainability Report, which is expected to be made available to us after that date.

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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Sustainability Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and take appropriate actions in accordance with SSAs.

### ***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.



# 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)

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.
- 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 2018

STATEMENTS OF  
FINANCIAL POSITION

AS AT 31 DECEMBER 2017

		Group		Company	
	Note	2017 US\$	2016 US\$	2017 US\$	2016 US\$
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	4	15,587,715	16,417,545	–	–
Lease prepayments	5	1,473,790	671,627	–	–
Intangible assets	6	3,576	7,081	–	–
Investment in subsidiaries	7	–	–	7,299,511	9,534,111
<b>Total non-current assets</b>		<b>17,065,081</b>	<b>17,096,253</b>	<b>7,299,511</b>	<b>9,534,111</b>
<b>Current assets</b>					
Inventories	8	8,041,574	5,537,165	–	–
Trade and other receivables	9	7,232,663	8,051,074	15,662,220	18,028,472
Prepayments		95,715	133,987	4,647	30,802
Cash and bank balances	10	9,215,350	8,977,217	4,445,222	3,236,705
<b>Total current assets</b>		<b>24,585,302</b>	<b>22,699,443</b>	<b>20,112,089</b>	<b>21,295,979</b>
<b>Total assets</b>		<b>41,650,383</b>	<b>39,795,696</b>	<b>27,411,600</b>	<b>30,830,090</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	11	18,822,247	18,822,247	18,822,247	18,822,247
Reserves	12	2,698,605	2,465,071	151,827	151,827
Retained earnings		12,353,033	11,271,348	3,528,407	3,563,801
<b>Total equity attributable to owners of the parent</b>		<b>33,873,885</b>	<b>32,558,666</b>	<b>22,502,481</b>	<b>22,537,875</b>
<b>Non-current liabilities</b>					
Finance lease payable	13	27,860	39,081	–	–
Deferred tax liabilities	14	866,078	922,461	–	–
<b>Total non-current liabilities</b>		<b>893,938</b>	<b>961,542</b>	<b>–</b>	<b>–</b>
<b>Current liabilities</b>					
Trade and other payables	15	5,119,764	5,506,739	3,684,243	8,062,181
Bank borrowings	16	1,069,559	–	1,069,559	–
Finance lease payable	13	11,048	10,362	–	–
Derivative financial instruments	17	–	142,034	–	142,034
Current income tax payable		682,189	616,353	155,317	88,000
<b>Total current liabilities</b>		<b>6,882,560</b>	<b>6,275,488</b>	<b>4,909,119</b>	<b>8,292,215</b>
<b>Total liabilities</b>		<b>7,776,498</b>	<b>7,237,030</b>	<b>4,909,119</b>	<b>8,292,215</b>
<b>Total equity and liabilities</b>		<b>41,650,383</b>	<b>39,795,696</b>	<b>27,411,600</b>	<b>30,830,090</b>

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017 US\$	2016 US\$
Revenue	18	44,210,635	41,782,891
Cost of sales		(36,820,625)	(34,491,411)
<b>Gross profit</b>		<b>7,390,010</b>	<b>7,291,480</b>
<b>Other item of income</b>			
Other income	19	294,732	516,353
<b>Other items of expense</b>			
Distribution expenses		(1,012,886)	(908,977)
Administrative expenses		(2,454,292)	(2,760,891)
Other operating expenses		(199,720)	(216,401)
Net finance income/(costs)	20	64,145	(34,740)
<b>Profit before tax</b>	21	<b>4,081,989</b>	<b>3,886,824</b>
Income tax expense	22	(744,004)	(623,418)
<b>Profit for the financial year</b>		<b>3,337,985</b>	<b>3,263,406</b>
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operations		233,534	(412,138)
Income tax relating to items that may be reclassified		-	-
<b>Other comprehensive income for the financial year, net of tax</b>		<b>233,534</b>	<b>(412,138)</b>
<b>Total comprehensive income for the financial year</b>		<b>3,571,519</b>	<b>2,851,268</b>

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017 US\$	2016 US\$
<b>Profit attributable to:</b>			
Owners of the parent		3,337,985	3,263,406
Non-controlling interests		–	–
		<u>3,337,985</u>	<u>3,263,406</u>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		3,571,519	2,851,268
Non-controlling interests		–	–
		<u>3,571,519</u>	<u>2,851,268</u>
<b>Earnings per share from attributable to owners of the parent (cents)</b>			
Basic	23	<u>1.59</u>	<u>1.55</u>
Diluted	23	<u>1.59</u>	<u>1.55</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 2017

	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\$
<b>Group</b>							
Balance as at 1 January 2017		18,822,247	633,153	1,680,091	151,827	11,271,348	32,558,666
Profit for the financial year		-	-	-	-	3,337,985	3,337,985
<b>Other comprehensive income:</b>							
Exchange differences arising from translation of foreign operations		-	233,534	-	-	-	233,534
<b>Total comprehensive income for the financial year</b>		-	233,534	-	-	3,337,985	3,571,519
<b>Transactions with owners</b>							
Dividend	24	-	-	-	-	(2,256,300)	(2,256,300)
Balance as at 31 December 2017		<u>18,822,247</u>	<u>866,687</u>	<u>1,680,091</u>	<u>151,827</u>	<u>12,353,033</u>	<u>33,873,885</u>
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
<b>Other comprehensive income:</b>							
Exchange differences arising from translation of foreign operations		-	(412,138)	-	-	-	(412,138)
<b>Total comprehensive income for the financial year</b>		-	(412,138)	-	-	3,263,406	2,851,268
<b>Transactions with owners</b>							
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.

# STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	Share capital US\$	Share-based payment reserve US\$	Retained earnings US\$	Total equity US\$
<b>Company</b>					
Balance as at 1 January 2017		18,822,247	151,827	3,563,801	22,537,875
Profit for the financial year, representing total comprehensive income for the financial year		-	-	2,220,906	2,220,906
Dividend	24	-	-	(2,256,300)	(2,256,300)
Balance as at 31 December 2017		<u>18,822,247</u>	<u>151,827</u>	<u>3,528,407</u>	<u>22,502,481</u>
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>

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



# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017 US\$	2016 US\$
<b>Cash flows from operating activities</b>			
Profit before tax		4,081,989	3,886,824
Adjustments for:			
Write back for inventory obsolescence		(11,626)	(103,594)
Write down of inventories to net realisable value		–	11,626
Depreciation of property, plant and equipment		1,556,034	1,470,916
Amortisation of lease prepayments		45,080	21,625
Amortisation of intangible assets		3,505	5,753
Bad debt written off		87,524	–
Interest expense		66,208	40,538
Interest income		(24,124)	(42,084)
Gain on disposal of property, plant and equipment		(6,765)	(49,710)
Property, plant and equipment written off		175	651,006
Net change in fair value of forward exchange contracts		–	142,034
Unrealised foreign exchange loss		17,383	–
Operating cash flows before working capital changes		5,815,383	6,034,934
Changes in working capital:			
Inventories		(2,492,783)	56,094
Trade and other receivables		730,887	(1,256,153)
Prepayments		38,272	206,015
Trade and other payables		(758,823)	337,024
Deposit (pledged)/refunded		(20,942)	5,549
Cash generated from operations		3,311,994	5,383,463
Income tax paid		(734,551)	(535,399)
<b>Net cash from operating activities</b>		<b>2,577,443</b>	<b>4,848,064</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(700,581)	(1,575,317)
Acquisition of lease prepayment		(837,900)	–
Interest received		24,124	42,084
Proceeds from disposal of property, plant and equipment		57,793	52,025
<b>Net cash used in investing activities</b>		<b>(1,456,564)</b>	<b>(1,481,208)</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017 US\$	2016 US\$
<b>Cash flows from financing activities</b>			
Dividends paid		(2,256,300)	(5,077,811)
Interest paid		(66,208)	(40,538)
Repayment of finance lease payable		(10,535)	(7,472)
Proceeds from short-term loans		3,495,750	4,970,675
Repayments of short-term loans		(2,443,574)	(5,940,087)
Proceeds from trust receipts		11,536,780	4,061,456
Repayments of trust receipts		(11,306,966)	(3,464,585)
<b>Net cash used in financing activities</b>		<b>(1,051,053)</b>	<b>(5,498,362)</b>
Net change in cash and cash equivalents		69,826	(2,131,506)
Cash and cash equivalents at beginning of financial year		8,804,318	11,251,125
Effect of foreign exchange rate changes on cash and cash equivalents		147,365	(315,301)
Cash and cash equivalents at end of financial year	10	<b>9,021,509</b>	<b>8,804,318</b>

## Reconciliation of liabilities arising from financing activities

	2016 US\$	Cash flows US\$	Non-cash change Foreign exchange differences US\$	2017 US\$
Bank borrowings (Note 16)	–	1,052,176	17,383	1,069,559
Trust receipts (Note 15)	1,420,681	229,814	–	1,650,495
Finance lease payable (Note 13)	49,443	(10,535)	–	38,908
	<b>1,470,124</b>	<b>1,271,455</b>	<b>17,383</b>	<b>2,758,962</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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 activities of the Company are investment holding and 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 2017 were authorised for issue in accordance with a Directors’ resolution dated 20 March 2018.

## 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.

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, except as detailed below.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 2. Summary of significant accounting policies (Continued)

### 2.1 Basis of preparation (Continued)

#### *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 adopted these amendments on 1 January 2017 and the additional disclosures have been included in the consolidated statements of cash flows.

#### *Full IFRS Convergence*

Singapore-incorporated companies listed on SGX-ST are 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 new framework is referred to as 'Singapore Financial Reporting Standards (International) (SFRS(I)s)'. The Group will adopt the new framework on 1 January 2018 and will apply SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International) 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 has completed its assessment of the impact of transition and anticipates that the adoption of the new framework on 1 January 2018 (including the application of all the mandatory exceptions) will not have a material impact on the financial statements of the Group for the financial year ending 31 December 2018, other than the impact from the adoption of SFRS(I) 9 and SFRS(I) 15 which is expected to be similar to the impact of FRS 109 and FRS 115 as disclosed below. The Group is currently finalising the transitional adjustments that are required or elected under SFRS(I) 1.

#### *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:

		<b>Effective date (annual periods beginning on or after)</b>
FRS 28 (Amendments)	: Long-term Interests in Associates and Joint Ventures	1 January 2019
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 Financial Instruments with FRS 104 Insurance Contracts	1 January 2018
FRS 109	: Financial Instruments	1 January 2018
FRS 109 (Amendments)	: Prepayment Features with Negative Compensation	1 January 2019

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 2. Summary of significant accounting policies (Continued)

### 2.1 Basis of preparation (Continued)

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

		Effective date (annual periods beginning on or after)
FRS 110 and FRS 28 (Amendments)	: Sale or Contribution 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 (Amendments)	: Investments in Associates and Joint Ventures	1 January 2018
– FRS 101 (Amendments)	: First-time Adoption of Financial Reporting Standards	1 January 2018
Improvements to FRSs (March 2018)		
– FRS 103 (Amendments)	: Business Combinations	1 January 2019
– FRS 111 (Amendments)	: Joint Arrangements	1 January 2019
– FRS 12 (Amendments)	: Income Taxes	1 January 2019
– FRS 23 (Amendments)	: Borrowing Costs	1 January 2019
INT FRS 122	: Foreign Currency Transactions and Advance Consideration	1 January 2018
INT FRS 123	: Uncertainty over Income Tax Treatments	1 January 2019

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

#### *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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 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

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 derecognition of financial assets and financial liabilities.

The Group has completed its assessment of the classification and measurement of its financial assets and financial liabilities and does not expect any changes to the classification and measurement of its financial assets and liabilities currently measured at amortised cost 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 Company will initially provide for 12 months expected losses under the three-stage model.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 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)*

Impairment (Continued)

Under the new impairment model, the Group and the Company estimate that no allowance for impairment loss on trade receivables and/or other receivables is necessary upon the adoption of FRS 109.

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.

The Group will include additional financial statement disclosures 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.

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

On adoption of 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. Revenue from resins toll compounding services is recognised 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.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 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)*

On adoption of FRS 115, the Group has assessed that there is no impact to revenue recognised for 31 December 2017 and 31 December 2016 as revenue are recognised at a point in time when finished goods have been delivered to its customers or collected by the customers.

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 an impact on the accounting treatment for leases, which the Group as lessee currently accounts for as operating leases. On the adoption of FRS 116, the Group will be required to capitalise its rented office premises and office equipment 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 therefore will only recognise leases on balance sheet as at 1 January 2019. The Group 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 2017

## 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 consolidated 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 2017

## 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 2017

## 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 assets under construction 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 assets under construction 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, if there is no certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

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 2017

## 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 their estimated lease term of 28 to 41 years.

### 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 software 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.

### 2.7 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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 2. Summary of significant accounting policies (Continued)

### 2.8 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.

### 2.9 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 bank balances.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

### 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 2017

## 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 2017

### 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 consolidated statement of cash flows comprise of cash and bank balances, net of fixed deposits pledged.

#### 2.11 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 2. Summary of significant accounting policies (Continued)

### 2.11 Leases (Continued)

#### 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.

### 2.12 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 2. Summary of significant accounting policies (Continued)

### 2.13 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.

#### Sales of scrap

Revenue from sales of scrap is recognised upon delivery to or collection by customers.

### 2.14 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.

### 2.15 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 2. Summary of significant accounting policies (Continued)

### 2.16 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.

### 2.17 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.

### 2.18 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.

#### 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 2. Summary of significant accounting policies (Continued)

### 2.18 Taxes (Continued)

#### Deferred tax (Continued)

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.

### 2.19 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 2. Summary of significant accounting policies (Continued)

### 2.20 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.

### 2.21 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 2017

## 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 2017 was US\$8,041,574 (2016: US\$5,537,165) (Note 8).



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 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 Company follows the guidance of FRS 36 in determining whether PPE is impaired. This determination requires significant judgement. The Company evaluate among other factors, the financial health of near-term business outlook for the respective subsidiaries, including both internal and external source of information and operation and financing cash flows.

The carrying amount of the Group's property, plant and equipment as at 31 December 2017 were US\$15,587,715 (2016: US\$16,417,545) (Note 4).

## 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\$
<b>Group</b>							
<b>Cost</b>							
Balance at 1 January 2017	9,398,951	12,717,031	608,038	1,118,552	127,605	136,859	24,107,036
Additions	-	106,077	75,100	71,633	862	446,909	700,581
Disposals	-	(211,643)	(53,946)	(3,335)	-	(6,000)	(274,924)
Written-off	-	-	(4,379)	(1,461)	-	-	(5,840)
Transfer	193,822	58,607	-	15,625	-	(268,054)	-
Exchange differences	132,415	23,949	3,901	23,568	-	-	183,833
Balance at							
31 December 2017	<u>9,725,188</u>	<u>12,694,021</u>	<u>628,714</u>	<u>1,224,582</u>	<u>128,467</u>	<u>309,714</u>	<u>24,710,686</u>
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	1,090,516	1,207,765	-	106,684	-	(2,404,965)	-
Exchange differences	(146,674)	(28,969)	(4,362)	(26,171)	-	(12,307)	(218,483)
Balance at							
31 December 2016	<u>9,398,951</u>	<u>12,717,031</u>	<u>608,038</u>	<u>1,118,552</u>	<u>127,605</u>	<u>136,859</u>	<u>24,107,036</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 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\$
<b>Group</b>							
<b>Accumulated depreciation</b>							
Balance at							
1 January 2017	2,052,943	4,367,636	310,870	924,821	33,221	-	7,689,491
Depreciation	332,867	1,011,232	82,639	97,658	31,638	-	1,556,034
Disposals	-	(172,287)	(48,552)	(3,057)	-	-	(223,896)
Written-off	(117)	-	(4,087)	(1,461)	-	-	(5,665)
Exchange differences	63,122	20,991	1,782	21,112	-	-	107,007
Balance at							
31 December 2017	<u>2,448,815</u>	<u>5,227,572</u>	<u>342,652</u>	<u>1,039,073</u>	<u>64,859</u>	<u>-</u>	<u>9,122,971</u>
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	(44,355)	(1,146,983)	-	(45,636)	-	-	(1,236,974)
Exchange differences	(63,990)	(25,381)	(3,838)	(23,503)	-	-	(116,712)
Balance at							
31 December 2016	<u>2,052,943</u>	<u>4,367,636</u>	<u>310,870</u>	<u>924,821</u>	<u>33,221</u>	<u>-</u>	<u>7,689,491</u>
<b>Carrying amount</b>							
Balance at							
31 December 2017	<u>7,276,373</u>	<u>7,466,449</u>	<u>286,062</u>	<u>185,509</u>	<u>63,608</u>	<u>309,714</u>	<u>15,587,715</u>
Balance at							
31 December 2016	<u>7,346,008</u>	<u>8,349,395</u>	<u>297,168</u>	<u>193,731</u>	<u>94,384</u>	<u>136,859</u>	<u>16,417,545</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 4. Property, plant and equipment (Continued)

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

	2017 US\$	2016 US\$
Additions of property, plant and equipment	700,581	1,632,232
Less:		
Motor vehicle acquired under finance lease payable	–	(56,915)
Cash payment to acquire property, plant and equipment	700,581	1,575,317

During the current financial year, the assets under construction mainly pertained to construction of a new factory in Vietnam which is not ready for use at the end of the reporting period.

In prior 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.

	Furniture, fittings and equipment US\$
<b>Company</b>	
<b>Cost</b>	
Balance at 1 January 2017	8,927
Written off	(1,857)
Balance at 31 December 2017	7,070
Balance at 1 January 2016 and 31 December 2016	8,927
<b>Accumulated depreciation</b>	
Balance at 1 January 2017	8,927
Written off	(1,857)
Balance at 31 December 2017	7,070
Balance at 1 January 2016 and 31 December 2016	8,927
<b>Carrying amount</b>	
Balance at 31 December 2017	–
Balance at 31 December 2016	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 5. Lease prepayments

	<b>Group US\$</b>
<b>Cost</b>	
Balance at 1 January 2017	828,984
Addition	837,900
Exchange differences	14,483
Balance at 31 December 2017	<u>1,681,367</u>
Balance at 1 January 2016	829,518
Exchange differences	(534)
Balance at 31 December 2016	<u>828,984</u>
<b>Accumulated amortisation</b>	
Balance at 1 January 2017	157,357
Amortisation	45,080
Exchange differences	5,140
Balance at 31 December 2017	<u>207,577</u>
Balance at 1 January 2016	141,200
Amortisation	21,625
Exchange differences	(5,468)
Balance at 31 December 2016	<u>157,357</u>
<b>Carrying amount</b>	
Balance at 31 December 2017	<u>1,473,790</u>
Balance at 31 December 2016	<u>671,627</u>

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

During the financial year, the Group acquired land use right in Vietnam for a purchase consideration of US\$837,900.

As at 31 December 2017, the remaining amortisation period of the land use rights is between 28 to 41 years (2016: 29 to 42 years). None of the leases include contingent rentals.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 6. Intangible assets

	<b>Computer software US\$</b>
<b>Group</b>	
<b>Cost</b>	
Balance at 1 January 2017	159,358
Exchange differences	(1,577)
Balance at 31 December 2017	<u>157,781</u>
Balance at 1 January 2016	158,437
Exchange differences	921
Balance at 31 December 2016	<u>159,358</u>
<b>Accumulated amortisation</b>	
Balance at 1 January 2017	152,277
Amortisation	3,505
Exchange differences	(1,577)
Balance at 31 December 2017	<u>154,205</u>
Balance at 1 January 2016	145,603
Amortisation	5,753
Exchange differences	921
Balance at 31 December 2016	<u>152,277</u>
<b>Carrying amount</b>	
Balance at 31 December 2017	<u>3,576</u>
Balance at 31 December 2016	<u>7,081</u>

## 7. Investment in subsidiaries

	<b>Company</b>	
	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Unquoted equity shares, at cost	<b>11,784,111</b>	11,784,111
Capital reduction	<b>(3,834,600)</b>	–
Allowance for impairment loss	<b>(650,000)</b>	(2,250,000)
	<u><b>7,299,511</b></u>	<u>9,534,111</u>

During the financial year, the Board of Directors of Suzhou Huiye Chemical & Light Industry Co., Ltd (“SHCL”) approved the capital reduction exercise for SHCL to reduce the registered capital of SHCL from US\$5,066,200 to US\$1,231,600.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

### 7. Investment in subsidiaries (Continued)

Movement in allowance for impairment loss is as follows:

	Company	
	2017 US\$	2016 US\$
Balance at beginning of financial year	2,250,000	2,250,000
Reversal during the financial year	(1,600,000)	–
Balance at end of financial year	<u>650,000</u>	<u>2,250,000</u>

During the financial year, management carried out a review of the recoverable amount of the investment in subsidiaries. A reversal of an allowance for impairment loss of US\$1,600,000 was recognised relating to the investment in SHCL following the capital reduction exercise carried out during the financial year and 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\$1,444,000 has been determined on the basis of its value in use. The discount rate used in measuring the value in use was 9.0%.

Cash and bank balances of US\$460,492 (2016: US\$408,751) held in the People's Republic of China, are subject to local exchange control regulations. These regulations place restrictions on exporting capital from the country, other than through normal dividends.

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	
		2017 %	2016 %
S.L. Packaging Industries Pte. Ltd. <sup>(1)</sup> (Singapore)	Sale of polyethylene packaging materials	100	100
Suzhou Huiye Chemical & Light Industry Co., Ltd. <sup>(2)</sup> (People's Republic of China)	Manufacture and sale of compounded resins and toll compounding services	100	100
Suzhou Huiye Plastic Industry Co., Ltd. <sup>(2)</sup> (People's Republic of China)	Manufacture and sale of compounded resins and toll compounding services	100	100
Huiye Polymer (M) Sdn. Bhd. <sup>(3)</sup> (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. <sup>(3)</sup> (Vietnam)	Manufacture and sale of compounded resins and toll compounding services	100	100

(1) Audited by BDO LLP, Singapore.

(2) Audited by BDO China Shu Lun Pan Certified Public Accountants LLP for consolidation purposes. The statutory auditor is Jiangsu Gong Zheng Certified Public Accountants, People's Republic of China.

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 8. Inventories

	Group	
	2017 US\$	2016 US\$
Finished goods	1,911,489	1,368,305
Work in progress	141,709	324,242
Raw materials	5,812,456	3,844,618
Goods in transit	175,920	–
	<b>8,041,574</b>	<b>5,537,165</b>

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\$32,290,791 (2016: US\$29,249,058).

During the financial year, there was a reversal of allowance for inventory obsolescence amounted to US\$11,626 (2016: US\$103,594) as the inventories were sold above their carrying amount.

In prior financial year, there was write-down of inventories to net realisable value by the Group amounted to US\$11,626 and included in the “Cost of sales” line item.

## 9. Trade and other receivables

	Group		Company	
	2017 US\$	2016 US\$	2017 US\$	2016 US\$
Trade receivables				
– third parties	6,817,571	7,862,981	–	–
– subsidiaries	–	–	12,454,463	9,825,812
	<b>6,817,571</b>	<b>7,862,981</b>	<b>12,454,463</b>	<b>9,825,812</b>
Other receivables				
– third parties	178,506	18,981	–	–
– subsidiaries	–	–	3,144,721	8,201,790
Goods and services tax receivable	38,860	44,737	10,056	870
Deposits	102,361	53,598	–	–
Advances to suppliers	95,365	70,777	52,980	–
Total trade and other receivables	<b>7,232,663</b>	<b>8,051,074</b>	<b>15,662,220</b>	<b>18,028,472</b>
Add/(Less):				
Advances to suppliers	(95,365)	(70,777)	(52,980)	–
Goods and services tax receivable	(38,860)	(44,737)	(10,056)	(870)
Cash and bank balances (Note 10)	<b>9,215,350</b>	<b>8,977,217</b>	<b>4,445,222</b>	<b>3,236,705</b>
Total loans and receivables	<b>16,313,788</b>	<b>16,912,777</b>	<b>20,044,406</b>	<b>21,264,307</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 9. Trade and other receivables (Continued)

Trade receivables are non-interest bearing and generally range from 30 to 120 (2016: 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. In prior financial year, the Company's amount due from subsidiaries included dividend receivable amounted to US\$7,000,000.

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	
	2017 US\$	2016 US\$	2017 US\$	2016 US\$
United States dollar	<b>5,333,126</b>	6,948,264	<b>14,355,413</b>	16,857,606
Chinese renminbi	<b>1,583,631</b>	833,163	–	–
Singapore dollar	<b>13,953</b>	4,715	<b>10,056</b>	870
Vietnamese dong	<b>214,187</b>	180,265	–	–
Ringgit Malaysia	<b>87,766</b>	56,220	<b>1,296,751</b>	1,169,996
Euro	–	28,447	–	–
	<b>7,232,663</b>	8,051,074	<b>15,662,220</b>	18,028,472

## 10. Cash and bank balances

	Group		Company	
	2017 US\$	2016 US\$	2017 US\$	2016 US\$
Cash and bank balances	<b>9,021,509</b>	8,804,318	<b>4,445,222</b>	3,236,705
Fixed deposits	<b>193,841</b>	172,899	–	–
Cash and bank balances on statements of financial position	<b>9,215,350</b>	8,977,217	<b>4,445,222</b>	3,236,705
Fixed deposits pledged	<b>(193,841)</b>	(172,899)		
Cash and cash equivalents included in consolidated statement of cash flows	<b>9,021,509</b>	8,804,318		

Fixed deposits bear interest at an average rate of 3.10% (2016: 3.15% – 3.30%) per annum and for a tenure of approximately 12 months (2016: 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.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 10. Cash and bank balances (Continued)

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

	Group		Company	
	2017 US\$	2016 US\$	2017 US\$	2016 US\$
United States dollar	7,354,054	7,074,981	4,374,538	3,117,932
Chinese renminbi	460,600	408,859	1	1
Singapore dollar	180,906	261,392	69,848	117,750
Vietnamese dong	495,736	931,633	–	–
Ringgit Malaysia	722,511	206,994	46	46
Euro	589	92,403	589	775
Others	954	955	200	201
	<b>9,215,350</b>	<b>8,977,217</b>	<b>4,445,222</b>	<b>3,236,705</b>

## 11. Share capital

	Group and Company		
	2017 Number of shares	2016 US\$	2016 US\$
<b>Issued and fully-paid:</b>			
At beginning and end of financial year	<b>209,971,310</b>	<b>18,822,247</b>	<b>18,822,247</b>

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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

### 12. Reserves (Continued)

#### 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.

### 13. Finance lease payable

	Minimum lease payments US\$	Future finance charges US\$	Present value of minimum lease payments US\$
<b>Group</b>			
<b>2017</b>			
<b>Current liabilities</b>			
Within one financial year	12,788	(1,740)	11,048
<b>Non-current liabilities</b>			
After one financial year but within five financial years	28,917	(1,057)	27,860
	<b>41,705</b>	<b>(2,797)</b>	<b>38,908</b>
<b>2016</b>			
<b>Current liabilities</b>			
Within one financial year	12,788	(2,426)	10,362
<b>Non-current liabilities</b>			
After one financial year but within five financial years	42,096	(3,015)	39,081
	<b>54,884</b>	<b>(5,441)</b>	<b>49,443</b>

The finance lease term is 5 years (2016: 5 years).

The finance lease bears effective interest rate at 5.42% (2016: 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 currency profile of the Group's finance lease payable as at end of the reporting period is Singapore dollar.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 14. Deferred tax liabilities

### Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

	2017 US\$	2016 US\$
<b>Group</b>		
Property, plant and equipment	801,377	864,842
Others	64,701	57,619
Deferred tax liabilities	<b>866,078</b>	<b>922,461</b>

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

	At 1/1/2016 US\$	Recognised in profit or loss (Note 22) US\$	At 31/12/2016 US\$	Recognised in profit or loss (Note 22) US\$	At 31/12/2017 US\$
<b>Group</b>					
<b>Deferred tax liabilities</b>					
Property, plant and equipment	1,009,226	(144,384)	864,842	(63,465)	<b>801,377</b>
Others	20,581	37,038	57,619	7,082	<b>64,701</b>
	<b>1,029,807</b>	<b>(107,346)</b>	<b>922,461</b>	<b>(56,383)</b>	<b>866,078</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

**15. Trade and other payables**

	Group		Company	
	2017 US\$	2016 US\$	2017 US\$	2016 US\$
Trade payables				
– third parties	<b>1,168,507</b>	1,897,607	<b>857,978</b>	1,398,258
Bills payable	<b>790,810</b>	807,500	<b>790,810</b>	807,500
Trust receipts	<b>1,650,495</b>	1,420,681	<b>1,650,495</b>	1,420,681
Other payables				
– third parties	<b>390,455</b>	417,504	<b>17,082</b>	2,141
– a subsidiary	–	–	–	4,130,253
Goods and services tax payable	<b>35,676</b>	49,851	–	–
Accrued operating expenses	<b>1,083,821</b>	913,596	<b>367,878</b>	303,348
Total trade and other payables	<b>5,119,764</b>	5,506,739	<b>3,684,243</b>	8,062,181
Add/(Less):				
Goods and services tax payable	<b>(35,676)</b>	(49,851)	–	–
Bank borrowings (Note 16)	<b>1,069,559</b>	–	<b>1,069,559</b>	–
Total financial liabilities carried at amortised cost	<b>6,153,647</b>	5,456,888	<b>4,753,802</b>	8,062,181

Trade payables are non-interest bearing and are generally on 30 to 120 (2016: 30 to 120) days credit terms.

Trust receipts are unsecured, bear interest ranging from 1.65% to 3.52% (2016: 2.10% to 3.10%) and are normally cash settled within 5 months (2016: 5 months).

In prior financial year, the non-trade amount due to a subsidiary was unsecured, non-interest bearing, repayable on demand and were 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	
	2017 US\$	2016 US\$	2017 US\$	2016 US\$
United States dollar	<b>3,489,082</b>	4,086,938	<b>3,373,137</b>	7,833,540
Chinese renminbi	<b>321,395</b>	524,470	–	–
Singapore dollar	<b>679,748</b>	502,874	<b>311,106</b>	228,641
Vietnamese dong	<b>240,163</b>	16,291	–	–
Ringgit Malaysia	<b>389,376</b>	373,640	–	–
Euro	–	2,526	–	–
	<b>5,119,764</b>	5,506,739	<b>3,684,243</b>	8,062,181

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 16. Bank borrowings

	Group and Company	
	2017	2016
	US\$	US\$
<b>Current liability</b>		
Short-term loans – unsecured	1,069,559	–

The carrying amounts of the Group's and the Company's bank borrowings approximated their respective fair value 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 is 2.4% and had maturity dates within 1 month from the end of the reporting period.

The currency profiles of the Group's bank borrowings as at end of the reporting period is Singapore dollar.

## 17. Derivative financial instruments

	Group and Company	
	2017	2016
	US\$	US\$
<b>Liabilities</b>		
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.

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

	Group and Company			
	Notional amount		Fair value loss	
	2017	2016	2017	2016
	US\$	US\$	US\$	US\$
Sell United States dollar	–	4,400,000	–	142,034

In prior financial year, the fair value of the forward foreign currency contracts was determined based on quoted market prices for equivalent forward currency contracts at the end of the reporting period. The foreign currency forward contracts were settled during the financial year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 18. Revenue

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

## 19. Other income

	Group	
	2017 US\$	2016 US\$
Gain on disposal of property, plant and equipment	6,765	49,710
Rental income	163,523	153,203
Sales of scrap	64,452	146,485
Payable written off	–	58,456
Government grant	4,158	8,365
Others	55,834	100,134
	<b>294,732</b>	<b>516,353</b>

## 20. Net finance income/(costs)

	Group	
	2017 US\$	2016 US\$
<b>Finance income:</b>		
Interest income on bank deposits	24,124	42,084
Foreign exchange gain, net	106,229	–
	<b>130,353</b>	<b>42,084</b>
<b>Finance costs:</b>		
Interest expenses on short-term revolving credit facilities	(1,561)	(18,089)
Interest expenses on trust receipts	(62,002)	(19,978)
Interest expenses on finance lease payable	(2,645)	(2,471)
Foreign exchange loss, net	–	(36,286)
	<b>(66,208)</b>	<b>(76,824)</b>
Net finance income/(costs) recognised in profit or loss	<b>64,145</b>	<b>(34,740)</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 21. Profit before tax

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

	Group	
	2017 US\$	2016 US\$
<u>Cost of sales</u>		
Depreciation of property, plant and equipment	1,268,424	1,213,202
Property, plant and equipment written off	–	626,306
Operating lease expense	6,310	86,193
Amortisation of lease prepayments	13,087	13,087
Cost of inventories	32,290,791	29,249,058
Write back for inventory obsolescence	(11,626)	(103,594)
Write down of inventories to net realisable value	–	11,626
	<b>–</b>	<b>–</b>
<u>Distribution expenses</u>		
Depreciation of property, plant and equipment	2,805	65
Freight and handling	368,763	380,764
Commission expenses	52,851	8,959
	<b>371,419</b>	<b>389,788</b>
<u>Administrative expenses</u>		
Audit fees		
– auditors of the Company	86,657	93,504
– other auditors	6,189	4,989
Non-audit fees		
– other auditors	1,100	1,100
Bad debt written off	4,304	–
Depreciation of property, plant and equipment	214,875	182,964
Property, plant and equipment written off	–	4,288
Operating lease expense	13,785	57,247
Amortisation of intangible assets	3,505	5,753
Amortisation of lease prepayments	31,993	8,538
Listing expenses	33,503	33,826
Repair and maintenance expenses	138,185	36,651
Travelling expenses	62,587	45,268
	<b>509,501</b>	<b>470,836</b>
<u>Other operating expenses</u>		
Depreciation of property, plant and equipment	69,930	74,685
Bad debt written off	83,220	–
Inventories written off	–	71,156
Property, plant and equipment written off	175	20,412
	<b>153,325</b>	<b>166,253</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 21. Profit before tax (Continued)

Profit before tax also includes:

	Group	
	2017 US\$	2016 US\$
Employee benefits expenses		
– salaries, bonuses and other benefits	3,369,914	3,617,555
– contributions to the defined contribution plan	234,784	203,815
	<b>3,604,698</b>	<b>3,821,370</b>

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

	Group	
	2017 US\$	2016 US\$
Cost of sales	1,662,137	1,641,290
Distribution of expenses*	516,300	450,248
Administrative expenses*	1,426,261	1,729,832
	<b>3,604,698</b>	<b>3,821,370</b>

\* 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

	Group	
	2017 US\$	2016 US\$
Current income tax		
– current financial year	840,109	876,512
– overprovision in prior financial years	(39,722)	(145,748)
	<b>800,387</b>	<b>730,764</b>
Deferred tax		
– current financial year	(23,928)	(117,346)
– (over)/underprovision in prior financial years	(32,455)	10,000
	<b>(56,383)</b>	<b>(107,346)</b>
Total income tax expense in consolidated statement of comprehensive income	<b>744,004</b>	<b>623,418</b>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 22. Income tax expense (Continued)

### Reconciliation of effective income tax rate

	Group	
	2017 US\$	2016 US\$
Profit before tax	<b>4,081,989</b>	3,886,824
Tax calculated at Singapore income tax rate of 17% (2016: 17%)	<b>693,938</b>	660,760
Effect of different tax rates of overseas operations	<b>159,348</b>	181,736
Tax effect of income not subject to tax	<b>(80,297)</b>	(35,195)
Tax effect of non-deductible expenses for income tax purpose	<b>104,436</b>	52,079
Tax effect of tax rebates and exemption	<b>(72,182)</b>	(109,951)
Overprovision in prior financial years	<b>(72,177)</b>	(135,748)
Others	<b>10,938</b>	9,737
Total income tax expense	<b>744,004</b>	623,418

## 23. Earnings per share

The calculation for earnings per share is based on:

	Group	
	2017	2016
Profit after tax from attributable to owners of the parent (US\$)	<b>3,337,985</b>	3,263,406
Actual number of ordinary shares in issue during the financial year applicable to basic earnings per share	<b>209,971,310</b>	209,971,310
<u>Earnings per share (cents)</u>		
– basic earnings per share	<b>1.59</b>	1.55
– diluted earnings per share	<b>1.59</b>	1.55

Basic earnings per share is calculated by dividing the Group's profit after 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 2017

### 24. Dividends

	<b>Group and Company</b>	
	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Special tax-exempt dividend of Nil (2016: 2.50 Singapore cents) per share in respect of the previous financial year	–	3,906,008
Final tax-exempt dividend of 1.50 Singapore cents (2016: 0.75 Singapore cents) per share in respect of the previous financial year	<b>2,256,300</b>	1,171,803
	<b>2,256,300</b>	5,077,811

The Board of Directors proposed that a final dividend of 1.50 Singapore cents per ordinary share amounting to approximately US\$2,355,699 to be paid for the financial year ended 31 December 2017. 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.

### 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 5 years (2016: 2 to 6 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:

	<b>Group</b>	
	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Within one financial year	<b>16,387</b>	23,333
After one financial year but within five financial years	<b>29,634</b>	39,763
After five financial years	–	6,440
	<b>46,021</b>	69,536

Operating lease payments represent rents payable by the Group for office premises and office equipment. Most of the leases are negotiated for an average term of 3 years (2016: 3 years).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 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	
	2017 US\$	2016 US\$
Within one financial year	173,653	110,009
After one financial year but within five financial years	503,095	–
	<b>676,748</b>	<b>110,009</b>

These non-cancellable leases have remaining lease terms of 3 to 5 years (2016: 1 year).

## 26. Capital commitments

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

The details are as follows:

	Group	
	2017 US\$	2016 US\$
Capital expenditure contracted but not provided for	<b>2,018,755</b>	<b>137,508</b>

## 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	
	2017 US\$	2016 US\$
<b>With subsidiaries</b>		
Sale of goods	<b>28,196,413</b>	24,412,646
Dividend income	–	7,746,753
Advances from	–	8,683,059
Settlement on behalf	<b>15,639,330</b>	<b>15,941,493</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 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	
	2017 US\$	2016 US\$
Directors of the Company		
– short-term benefits	850,909	613,076
– post-employment benefits	16,221	27,677
– directors' fees	121,367	123,818
Other key management personnel		
– short-term benefits	335,496	285,189
– post-employment benefits	31,410	25,553
	<b>1,355,403</b>	<b>1,075,313</b>

## 28. Segment information

The Group has two 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.

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 2017

## 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		Polyethylene packaging		Total	
	2017	2016	2017	2016	2017	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
External revenue	<b>24,795</b>	22,259	<b>19,416</b>	19,524	<b>44,211</b>	41,783
Segment results	<b>2,062</b>	2,393	<b>2,062</b>	1,492	<b>4,124</b>	3,885
Interest income	<b>22</b>	42	<b>2</b>	–	<b>24</b>	42
Finance cost	<b>(64)</b>	(38)	<b>(2)</b>	(3)	<b>(66)</b>	(41)
Profit before tax	<b>2,020</b>	2,397	<b>2,062</b>	1,489	<b>4,082</b>	3,886
Income tax expense	<b>(371)</b>	(522)	<b>(373)</b>	(101)	<b>(744)</b>	(623)
Profit after tax	<b>1,649</b>	1,875	<b>1,689</b>	1,388	<b>3,338</b>	3,263
<b>Assets and liabilities</b>						
Segment assets	<b>26,990</b>	24,164	<b>14,660</b>	15,632	<b>41,650</b>	39,796
Segment liabilities	<b>5,958</b>	5,612	<b>1,819</b>	1,625	<b>7,777</b>	7,237
<b>Other material non-cash items</b>						
Capital expenditure	<b>1,476</b>	1,381	<b>62</b>	251	<b>1,538</b>	1,632
Depreciation of property, plant and equipment	<b>544</b>	467	<b>1,012</b>	1,004	<b>1,556</b>	1,471

### Reconciliations of reportable segment revenue and profit and loss

	2017 US\$'000	2016 US\$'000
<b>Revenue</b>		
Total revenue for reportable segments	<b>44,211</b>	41,783
Consolidated revenue	<b>44,211</b>	41,783
<b>Profit or loss</b>		
Profit before tax for reportable segments	<b>4,082</b>	3,886
Consolidated profit before tax	<b>4,082</b>	3,886

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 28. Segment information (Continued)

### Reconciliations of reportable segment revenue and profit and loss (Continued)

#### 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.

	2017 US\$'000	2016 US\$'000
<b>Revenue from external customers</b>		
People's Republic of China	17,094	14,236
Singapore	18,594	18,683
Malaysia	4,410	3,355
Vietnam	3,425	4,785
Indonesia	688	724
	<b>44,211</b>	<b>41,783</b>
	2017 US\$'000	2016 US\$'000
<b>Non-current assets</b>		
People's Republic of China	2,106	2,197
Singapore	205	285
Malaysia	11,520	12,401
Vietnam	3,234	2,213
	<b>17,065</b>	<b>17,096</b>

#### **Major customers**

Revenue from two customers of the Group's polyethylene packaging segment represents approximately US\$16,521,358 (2016: one customer) or 37% (2016: US\$12,625,705 or 30%) 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 29. Financial instruments and financial risks

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

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

### *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 risk

Credit risk refers 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 10 (2016: 9) major customers representing 54% (2016: 57%) of total trade receivables as at 31 December 2017.

The Company has significant credit exposures arising from the trade and non-trade amounts due from subsidiaries amounting to US\$12,454,463 (2016: US\$9,825,812) and US\$3,144,721 (2016: US\$8,201,790) respectively.

At the end of the financial year, the Group's and the Company's maximum exposure to credit risk were represented by the carrying amount of the financial assets on the statements of financial position.

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 29. Financial instruments and financial risks (Continued)

### 29.1 Credit risk (Continued)

Cash and cash equivalents are mainly deposits with reputable banks and financial institutions with high credit ratings assigned by international credit rating agencies with minimum risk of default.

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	
	2017 Gross US\$	2016 Gross US\$	2017 Gross US\$	2016 Gross US\$
Not past due	6,462,974	6,325,715	5,207,369	4,183,170
Past due 0 – 30 days	316,928	1,481,696	307,250	3,430,092
Past due 31 – 120 days	37,669	55,570	1,556,428	736,440
Past due more than 120 days	–	–	5,383,416	1,476,110
	<b>6,817,571</b>	<b>7,862,981</b>	<b>12,454,463</b>	<b>9,825,812</b>

Based on the Group's monitoring of customers' credit risk, the Group believes that, no impairment allowance is necessary in respect of these trade receivables. These receivables are mainly arising from customers that have 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 risk

The Group is exposed to currency risk on sales and purchases and expenditure that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions are denominated are the Chinese renminbi, Singapore dollar, Vietnamese dong, Ringgit Malaysia and Euro. The currency that gives rise to the Company is primarily Singapore dollar and Ringgit Malaysia. 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.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 29. Financial instruments and financial risks (Continued)

### 29.2 Market risks (Continued)

#### Foreign currency risk (Continued)

The Group's currency exposure is as follows:

	Group			
	Monetary assets		Monetary liabilities	
	2017 US\$	2016 US\$	2017 US\$	2016 US\$
Chinese renminbi	1,435,387	178,242	191,064	339,373
Singapore dollar	194,859	266,107	1,788,215	552,317
Vietnamese dong	709,923	1,111,898	240,163	16,291
Ringgit Malaysia	2,107,028	1,433,210	389,376	373,640
Euro	589	120,850	–	2,526
Others	954	955	–	–

The Company's currency exposure is as follows:

	Company			
	Monetary assets		Monetary liabilities	
	2017 US\$	2016 US\$	2017 US\$	2016 US\$
Singapore dollar	79,904	118,620	1,380,665	228,641
Ringgit Malaysia	1,296,797	1,170,042	–	–

#### *Foreign currency sensitivity analysis*

The following table details the Group's sensitivity to a 10% (2016: 10%) change in Chinese renminbi, Singapore dollar, Vietnamese dong, Ringgit Malaysia and Euro and the Company's sensitivity to a 10% (2016: 10%) change in Singapore dollar and Ringgit Malaysia against the Company's functional currency (United States dollar). The sensitivity analysis assumes an instantaneous 10% (2016: 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 29. Financial instruments and financial risks (Continued)

### 29.2 Market risks (Continued)

#### Foreign currency risk (Continued)

#### *Foreign currency sensitivity analysis (Continued)*

	Increase/(Decrease)	
	Profit before tax	
	2017	2016
	US\$	US\$
<b>Group</b>		
<i>Chinese renminbi</i>		
Strengthens against United States dollar	124,432	(16,113)
Weakens against United States dollar	<u>(124,432)</u>	<u>16,113</u>
<i>Singapore dollar</i>		
Strengthens against United States dollar	(159,336)	(28,621)
Weakens against United States dollar	<u>159,336</u>	<u>28,621</u>
<i>Vietnamese dong</i>		
Strengthens against United States dollar	46,976	109,561
Weakens against United States dollar	<u>(46,976)</u>	<u>(109,561)</u>
<i>Ringgit Malaysia</i>		
Strengthens against United States dollar	171,765	105,957
Weakens against United States dollar	<u>(171,765)</u>	<u>(105,957)</u>
<i>Euro</i>		
Strengthens against United States dollar	-	11,832
Weakens against United States dollar	<u>-</u>	<u>(11,832)</u>
<b>Company</b>		
<i>Singapore dollar</i>		
Strengthens against United States dollar	(130,076)	(11,002)
Weakens against United States dollar	<u>130,076</u>	<u>11,002</u>
<i>Ringgit Malaysia</i>		
Strengthens against United States dollar	129,680	117,004
Weakens against United States dollar	<u>(129,680)</u>	<u>(117,004)</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 29. Financial instruments and financial risks (Continued)

### 29.2 Market risks (Continued)

#### Interest rate risk

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 rate at the reporting date would not affect profit or loss.

### 29.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. 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\$5,800,000 (2016: US\$12,382,000). As at 31 December 2017 and 31 December 2016, 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.

#### *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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

**29. Financial instruments and financial risks (Continued)****29.3 Liquidity risk (Continued)***Contract maturity analysis (Continued)*

	Within one financial year or on demand US\$	After one financial year but within five financial years US\$	Total US\$
<b>Group</b>			
<b>2017</b>			
<b><u>Financial liabilities</u></b>			
Non-interest bearing			
– trade and other payables	3,433,593	–	3,433,593
Interest bearing			
– trust receipts	1,656,204	–	1,656,204
– bank borrowings	1,070,614	–	1,070,614
– finance lease payable	12,788	28,917	41,705
	<b>6,173,199</b>	<b>28,917</b>	<b>6,202,116</b>
<b>2016</b>			
<b><u>Financial liabilities</u></b>			
Non-interest bearing			
– trade and other payables	4,036,207	–	4,036,207
Interest bearing			
– trust receipts	1,426,827	–	1,426,827
– 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
	<b>5,617,856</b>	<b>42,096</b>	<b>5,659,952</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

**29. Financial instruments and financial risks** (Continued)**29.3 Liquidity risk** (Continued)*Contract maturity analysis* (Continued)

	Within one financial year or on demand US\$	After one financial year but within five financial years US\$	Total US\$
<b>Company</b>			
<b>2017</b>			
<b><u>Financial liabilities</u></b>			
Non-interest bearing			
– trade and other payables	2,033,748	–	2,033,748
Interest bearing			
– trust receipts	1,656,204	–	1,656,204
– bank borrowings	1,070,614	–	1,070,614
	<u>4,760,566</u>	<u>–</u>	<u>4,760,566</u>
<b>2016</b>			
<b><u>Financial liabilities</u></b>			
Non-interest bearing			
– trade and other payables	6,641,500	–	6,641,500
Interest bearing			
– trust receipts	1,426,827	–	1,426,827
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>8,210,361</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 owners of the Company, comprising issued share capital, reserves and retained earnings.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

### 30. Capital management policies and objectives (Continued)

Management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Upon review, management will balance their overall capital structure through the payment of dividends and new share issues as well as making repayment of the borrowings or obtain new borrowings. The Group's overall strategy remains unchanged from 2016.

Subsidiaries of the Group established in the People's Republic of China are required to contribute and maintain a non-distributable statutory reserve fund as set out in the relevant regulations in the People's Republic of China and Note 12.

In addition to the above, the Group and the Company are in compliance with all externally imposed capital requirements in relation to financial covenants on its borrowings for the financial years ended 31 December 2017 and 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 amount of current financial assets and current financial liabilities recorded at amortised cost in the financial statements approximate their respective fair value 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## 31. Fair value of financial assets and financial liabilities (Continued)

### 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\$
<b>Group and Company</b>				
<b>2017</b>				
Derivative financial instrument				
– forward contracts	–	–	–	–
<b>2016</b>				
Derivative financial instrument				
– forward contracts	–	142,034	–	142,034

In prior financial year, 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 in prior financial year.

# SHAREHOLDERS' INFORMATION

AS AT 7 MARCH 2018

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 7 MARCH 2018

Size of Shareholdings	Number of Shareholders	%	Number of Shares	%
1 – 99	0	0.00	0	0.00
100 – 1,000	274	33.25	262,459	0.12
1,001 – 10,000	383	46.48	1,888,601	0.90
10,001 – 1,000,000	155	18.81	14,293,600	6.81
1,000,001 and above	12	1.46	193,526,650	92.17
	<b>824</b>	<b>100.00</b>	<b>209,971,310</b>	<b>100.00</b>

## SUBSTANTIAL SHAREHOLDERS

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as at 7 March 2018 are as follows:-

Name	Direct Interest	No. of Ordinary shares		%
		%	Deemed Interest	
Intraco Limited	62,800,000	29.91	23,845,000 <sup>(1)</sup>	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 <sup>(2)</sup>	–	–	86,645,000	41.27
Tat Hong Investments Pte Ltd <sup>(2)</sup>	–	–	86,645,000	41.27
Chwee Cheng & Sons Pte Ltd <sup>(2)</sup>	–	–	86,645,000	41.27
Ng San Tiong <sup>(3)</sup>	–	–	86,645,000	41.27
Ng Sun Ho <sup>(3)</sup>	–	–	86,645,000	41.27
Ng San Wee <sup>(3)</sup>	–	–	86,645,000	41.27
Ng Sun Giam <sup>(3)</sup>	–	–	86,645,000	41.27
Amtrek Investment Pte Ltd <sup>(4)</sup>	–	–	86,645,000	41.27
Macondray Holdings Pte. Ltd. <sup>(4)</sup>	–	–	86,645,000	41.27
Asia Resource Corporation Pte Ltd <sup>(5)</sup>	–	–	86,645,000	41.27
Resource Pacific Holdings Pte Ltd <sup>(6)</sup>	–	–	86,645,000	41.27
Chew Leong Chee <sup>(7)</sup>	–	–	86,645,000	41.27
Melanie Chew Ng Fung Ning <sup>(8)</sup>	–	–	86,645,000	41.27



## SHAREHOLDERS' INFORMATION

AS AT 7 MARCH 2018

Note 1 Deemed Interest held through CGS-CIMB Securities (Singapore) Pte Ltd.

Note 2 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 3 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 4 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 5 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 6 Resource Pacific Holdings Pte Ltd ("**RPHPL**") owns 45.12% 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 7 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 40.14% interest in ARCPL.

RPHPL own 45.12% 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 8 Dr Melanie Chew owns 30% direct interest in RPHPL. Dr Melanie Chew is also deemed to be interested in 25% and 40.14% interest in RPHPL and ARCPL respectively held by her spouse, Mr Chew.

RPHPL owns 45.12% 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 7 MARCH 2018

## TWENTY LARGEST SHAREHOLDERS AS AT 7 MARCH 2018

	NAME OF SHAREHOLDER	NO. OF SHARES	%
1	INTRACO LIMITED	62,800,000	29.91
2	YEO HOCK LENG	27,839,496	13.26
3	CGS-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	3,263,000	1.55
11	MA FAT YING	2,142,000	1.02
12	DBS NOMINEES PTE LTD	1,505,400	0.72
13	GOH CHA BOH	808,000	0.38
14	TAN SOON LIM	800,000	0.38
15	LOW CHENG LUM	795,000	0.38
16	LAI WENG KAY	657,100	0.31
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
		<b>198,548,750</b>	<b>94.57</b>

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

As at 7 March 2018, 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 7 March 2018.

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 Monday, 23 April 2018 at 9.30 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 2017 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 2017. **(Resolution 2)**
3. To re-elect the following Directors retiring pursuant to Article 103 of the Company’s Constitution:–  
  
Mdm Goh Seok Eng [See Explanatory Note (i)] **(Resolution 3)**  
Mr Tan Lye Huat [See Explanatory Note (ii)] **(Resolution 4)**
4. To re-elect the following Directors retiring pursuant to Article 107 of the Company’s Constitution:–  
  
Mr Law Cheong Yan [See Explanatory Note (iii)] **(Resolution 5)**  
Mr Shabbir s/o Hakimuddin Hassanbhai [See Explanatory Note (iv)] **(Resolution 6)**
5. To approve the payment of Directors’ fees of S\$225,000 for the year ending 31 December 2018, to be paid quarterly in arrears. [See Explanatory Note (v)] **(Resolution 7)**
6. To re-appoint BDO LLP as the Company’s Auditors and to authorise the Directors to fix their remuneration. **(Resolution 8)**
7. 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:

8. **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 (vi)]

**(Resolution 9)**

By Order of the Board

Chan Wan Mei  
Company Secretary  
Singapore, 29 March 2018

# NOTICE OF ANNUAL GENERAL MEETING

## Explanatory Notes

- (i) Ordinary Resolution 3 is to re-elect Mdm Goh Seok Eng who will be retiring by rotation under Article 103 of the Constitution and if she is re-elected, she will remain as Deputy Group Managing Director and Technical Director. Mdm Goh is considered a Non-Independent Director. Key information on Mdm Goh is found on page 10 of the Annual Report.
- (ii) Ordinary Resolution 4 is to re-elect Mr Tan Lye Huat who will be retiring by rotation under Article 103 of the Constitution and if he is re-elected, he will remain as Chairman of the Audit and Risk Committee and member of the Nominating and Remuneration Committees and will be considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited and Guideline 2.3 of Principle 2 of the Code of Corporate Governance 2 May 2012. Key information on Mr Tan is found on page 10 of the Annual Report.
- (iii) Ordinary Resolution 5 is to re-elect Mr Law Cheong Yan who will be retiring by rotation under Article 107 of the Constitution and if he is re-elected, he will remain as member of the Audit and Risk, Nominating and Remuneration Committees and will be considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited and Guideline 2.3 of Principle 2 of the Code of Corporate Governance 2 May 2012. Key information on Mr Law is found on page 11 of the Annual Report.
- (iv) Ordinary Resolution 6 is to re-elect Mr Shabbir s/o Hakimuddin Hassanbhai who will be retiring by rotation under Article 107 of the Constitution and if he is re-elected, he will be considered a Non-Independent and Non-Executive Director. Key information on Mr Shabbir Hassanbhai is found on page 11 of the Annual Report.
- (v) Ordinary Resolution 7 is to seek approval for the payment of S\$225,000 to all Non-Executive Directors as Directors' Fees for the financial year ending 31 December 2018 (FY2017:S\$192,000). The exact amount of director's fees received by each Director for the financial year ended 31 December 2017 is disclosed in full in the Annual Report.
- (vi) The Ordinary Resolution 9, 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 9) 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 9) 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.

## 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 registered office at 21 Woodlands Close #09-12 Primz Bizhub, Singapore 737854, not less than forty-eight (48) hours before the time for holding the Annual General Meeting.

## Personal data privacy:

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

## DYNAMIC COLOURS LIMITED

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

### IMPORTANT

- 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 29 March 2018.

## 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 **Monday, 23 April 2018 at 9.30 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 2017		
2.	Payment of final dividend		
3.	Re-election of Mdm Goh Seok Eng		
4.	Re-election of Mr Tan Lye Huat		
5.	Re-election of Mr Law Cheong Yan		
6.	Re-election of Mr Shabbir s/o Hakimuddin Hassanbhai		
7.	Payment of Directors' fees of S\$225,000 for the year ending 31 December 2018, to be paid quarterly in arrears		
8.	Re-appointment of BDO LLP as Auditors		
9.	Authority to allot and issue shares pursuant to Section 161 of the Companies Act, Cap. 50		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2018

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 registered office at 21 Woodlands Close #09-12 Primz Bizhub, Singapore 737854, 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

**Tan Lye Huat** (Lead Independent Director)

**Chong Yee Siew Sebastian** (Independent Director)

**Law Cheong Yan** (Independent Director)

**Shabbir s/o Hakimuddin Hassanbhai** (Non-Executive Director)

## NOMINATING COMMITTEE

**Chong Yee Siew Sebastian** (Chairman)

**Law Cheong Yan**

**Tan Lye Huat**

## REMUNERATION COMMITTEE

**Chong Yee Siew Sebastian** (Chairman)

**Law Cheong Yan**

**Tan Lye Huat**

## AUDIT AND RISK COMMITTEE

**Tan Lye Huat** (Chairman)

**Chong Yee Siew Sebastian**

**Law Cheong Yan**

## EXECUTIVE OFFICER

**Lim Teck Shu** (Chief Financial Officer)

## SECRETARIES

**Chan Wan Mei** ACS, ACIS

**Lee Pay Lee** ACS, ACIS

## 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





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