

DYNAMIC COLOURS LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No.: 199304233Z)

RESPONSE TO QUERIES REGARDING ANNUAL REPORT 2019

The Board of Directors of Dynamic Colours Limited (“the Company”) refers to the queries received from the Singapore Exchange Securities Trading Limited (“SGX-ST”) on 13 May 2020, regarding Annual Report (“AR”) 2019, and wishes to respond to the queries as follows:-

Question 1:

On Page 60 of the AR 2019, “the Board, with the concurrence of the ARC, is satisfied that there are adequate internal controls in place to address the risks relating to financial, operational, compliance and information technology for the financial year ended 31 December 2019”. Listing Rule 1207(10) requires that “The board must comment on the adequacy and effectiveness of the issuer’s internal controls (including financial, operational, compliance and information technology controls) and risk management systems. A statement on whether the audit committee concurs with the board’s comment must also be provided. Where material weaknesses are identified by the board or audit committee, they must be disclosed together with the steps taken to address them.”

Please provide the Board’s comments on whether the internal controls and risk management systems are EFFECTIVE; and whether the AC concurs with the Board’s views.

Company’s Response 1:

Based on the internal controls and risk management systems established by the Group, reviews by the management and internal auditors throughout the year, the statutory audit conducted by the external auditor, as well as the assurances from the Group CEO and the CFO, pursuant to Provisions 9.2 of the Code of Corporate Governance received, the Board is of the view that the internal controls (including financial, operational, compliance and information technology controls) and risk management systems were adequate and effective for FY2019.

The ARC concurs with the Board’s views that the Group have adequate and effective internal controls in place to address the risks relating to financial, operational, compliance and information technology for the financial year ended 31 December 2019.

Question 2:

Listing Rule 1207(10C) requires the Audit Committee’s comments on whether the internal audit function is independent, effective and adequately resourced. We note that the internal audit function is outsourced to UHY Lee Seng Chan & Co. Please provide information on the relevant experience of accounting firm and the engagement team.

Company’s Response 2:

Established in 1967, UHY Lee Seng Chan & Co (UHY-LSC) has grown over the past 4 decades to become one of the leading CPA (Certified Public Accountants) firms offering diversified business advisory

services in the region. UHY-LSC is a member of Urbach Hacker Young International (“UHY International”), which was founded in 1986 by UK firm Hacker Young (now UHY Hacker Young LLP) and US firm Urbach Kahn & Werlin (now the US group, UHY Advisory). 25 years on, UHY International stands as a world leader in audit, accounting, tax and business advisory services, making UHY International one of the largest international accounting and consultancy network.

The internal audit and risk advisory services department of UHY-LSC is headed by its Senior Partner, Mr Lee Sen Choon who is a Chartered Accountant with The Institute of Singapore Chartered Accountants (ISCA) and a Member with the Institute of Chartered Accountants in England and Wales. He is also a Member of the Institute of Internal Auditors (IIA). He has more than 30 years of professional and global experience in internal and external audit, accounting, taxation and risk management. Mr Lee is assisted by a Senior Manager who directly oversees the engagement team and has close to two decades of experience in internal audit.

Question 3:

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the “Code”), and explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provision 8.1 of the Code with regards to the disclosure of remuneration, and there were no explanations provided for in your FY2019 annual report on how it is consistent with the intent of Principle 8 of the Code. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company’s remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.

Company’s Response 3:

The remuneration policies, level and mix of remuneration, the procedure of setting remuneration and the relationships between remuneration, performance and value creation for the Executive Director and CEO as well as the senior management staff are disclosed on Pages 49 to 51 under Provisions 7.1 “Remuneration of Executive Directors and Key Management Personnel and Link between Remuneration and Performance”, Provisions 7.2 “Remuneration of Non-Executive Directors” as well as Provisions 7.3 “Remuneration Framework” and “Long-term Incentive Scheme and Employee Share Options Scheme”.

The Company has disclosed in FY2019 annual report the policies and criteria for setting remuneration, as well as names, amounts and breakdown of remuneration of each individual director, the CEO and the top five key management personnel (who are not directors or the CEO) in bands no wider than S\$250,000 and in aggregate the total remuneration paid to these key management personnel. It has also disclosed the name and remuneration of an employee who is an immediate family member of a director, the CEO or a substantial shareholder of the company, and whose remuneration exceeds S\$100,000 in FY2019.

In addition to the disclosures under Provisions 7.3 on Remuneration Framework for senior management staff (“KMP”), the RC also takes into account the KPI performance for each KMP, after taking into consideration the Executive Director’s and CEO’s assessment of, and recommendation for, bonus and remuneration for the financial year under review.

Notwithstanding the additional disclosed practices, the Company believes that, taken as a whole, the disclosures provided are meaningful and sufficiently transparent in giving an understanding of the

remuneration of the KMP. Accordingly, the Company is of the view that its practices are consistent with the intent of Principle 8 of the Code, as well as appropriate and proportionate to the sustained performance and value creation of the Company, taking into account the strategic objectives of the Company pursuant to Principle 7 of the Code.

Question 4:

On Page 61 of the AR2019, it is stated “During FY2019, the ARC reviewed and if appropriate, approved all disclosable interested person transactions in accordance with the Shareholders’ Mandate for Interested Person Transactions (“IPT”). Directors who are interested in the transaction had recused themselves from the deliberation and approval process in both the ARC and the Board deliberation.” Please clarify the following:

- a. Does the Company have an existing IPT Mandate;
- b. If so, has the Company submitted a copy of the IPT Mandate circular;
- c. If so, please disclose the general mandate report in the annual report, providing details of the aggregate value of IPT conducted pursuant to general mandate during the FY, in accordance with Listing Rule 920(1)(a)(I).

Company’s Response 4:

- a. The Company does not have an IPT Mandate but do have an internal IPT policy in place.
- b. As there is no IPT Mandate, no copy of the IPT Mandate circular has been submitted.
- c. Even though the Company does not have an IPT Mandate, relevant disclosures according to our internal IPT policy can be found on Page 70 under the section of “Interested Person Transaction” as follows:
“The Company has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the ARC and that 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.”

In addition, the Company would like to rephrase the said paragraph on Page 61 as follows:

During FY2019, the ARC reviewed and if appropriate, approved all disclosable interested person transactions in accordance with the SGX Listing Rules Chapter 9 and its internal policy for Interested Person Transactions (“IPT”). Directors who are interested in the transaction had recused themselves from the deliberation and approval process in both the ARC and the Board deliberation.

By Order of the Board

Goh Seok Eng
Executive Chairman
15 May 2020