

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 Securities Investors Association (Singapore) (“SIAS”) on 9 June 2020, regarding FY2019 Annual Report (“AR”), and wishes to respond to the queries as follows:-

Question 1:

As noted in the chairman’s statement, the group ceased its operations in China following the compulsory land acquisition by the Suzhou authorities. The group continues to serve its customers with its plants in Malaysia and Vietnam.

Despite revenue falling by 12.2% to US\$35.86 million in FY2019, profit more than doubled to US\$2.88 million. This was largely contributed by a 24% increase in Polyethylene Packaging sales tonnage as well as better overall gross profit margin.

- (i) For the benefit of new shareholders, what is the capacity and manufacturing capability of the two remaining plants in Malaysia and Vietnam?
- (ii) Are there plans to start the polyethene packaging business in Vietnam?
- (iii) How much more growth in volume can the plants support without major capital expenditure?
- (iv) Does management see a significant increase in demand in Vietnam following global shifts in trading and manufacturing?

Company’s Response 1:

- (i) The average manufacturing capacity utilisations of the two remaining plants in Malaysia and Vietnam for the first 5 months of FY2020 are quite similar to those for the same period in 2019.
- (ii) There are currently no plans to start the polyethene packaging (“PP”) business in Vietnam.
- (iii) In general, other than PP, the Company still have adequate capacity for growth if the market demand rises.
- (iv) At this juncture, the management have not witnessed a significant increase in demand in Vietnam following the global shifts in trading and manufacturing.

Question 2:

On 18 March 2020, the company provided shareholders with an update of the impact on the group's business amid the COVID-19 outbreak, in particular, its Malaysian operations. Due to the Movement Control Order ("MCO") implemented by the Malaysian government, the group disclosed that production would be adversely affected.

- (i) Did the group apply and receive an exemption from the MCO as a manufacturer of essential products?
- (ii) Has the operations at Huiye Polymer (M) Sdn. Bhd. resumed?

On 4 May 2020, the group further updated that its Vietnam operation had not been affected by any national lockdown.

- (iii) What is the level of activities in Vietnam compared to last year?
- (iv) Does the group see any silver lining during this challenging time?

Company's Response 2:

- (i) The operations at our Malaysian subsidiary has been affected after the country was placed under Movement Control Order ("MCO") with effect from 18 March 2020. Even though approval has been sought for PP production run, it was approved at only 50% headcount, while RC production was totally down until late April when production resumed partially.
- (ii) Yes, the Huiye Polymer (M) Sdn. Bhd. ("HPM") has resumed operations 4 May 2020.
- (iii) The average manufacturing capacity for Vietnam is largely comparable to last year.
- (iv) The challenging business landscape will be dependent on the outcomes on how world economic situation evolves. Nevertheless, the company will continually assess any opportunities that comes its way.

Question 3:

In the group's sustainability report, the board had identified 5 material factors that are the highest in reporting priority. These are:

- Customer satisfaction
- Sustainable business performance
- Employee safety
- Commitment to consistent product quality
- Robust corporate governance framework

In particular, under Employee safety, the group recorded zero workplace fatality but had experienced 3 non-fatal workplace injuries resulting in 47 man-days lost during the reporting period. The workplace accidents are mainly associated with finger injuries.

In FY2017 and FY2018, the group had zero industrial accidents as well as zero man-days lost.

The group has stated that lessons from the non-fatal workplace accidents are shared across business units to prevent recurrence.

- (i) Did the board/management review the causes of the three cases of non- fatal workplace injuries? If so, what were the causes? For over 2 years, the group maintained no incidents and no man-days lost.
- (ii) Would management be reviewing the effectiveness of the safety training?
- (iii) How does the board/management monitor the level of compliance of the group's safety practices and policies?

Company's Response 3:

- (i) The management has conducted a formal review of the non-fatal workplace injuries and mostly due to human error. Nevertheless, to prevent such occurrences, further measures have been implemented and to be included in the safety training.
- (ii) Besides reviewing the effectiveness of the safety training, the management conducts briefings and put up signboards to constantly remind employees to be mindful in the handling of certain machinery and equipment.
- (iii) The management has also recently beefed up its ISO standard compliance alongside the group's safety practices and policies. With the enhanced Quality Assurance Manual and Work Instructions, the level of compliance should be further elevated.

On Behalf of the Board

Goh Seok Eng
Executive Chairman
15 June 2020