



MEGACHEM LIMITED

Un-audited Financial Statements and Dividend Announcement

For The Half Year Ended
30 June 2017

This announcement has been prepared by the Company and the contents have been reviewed by the Company's Sponsor, SAC Capital Private Limited (the "Sponsor"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "Exchange"). The Company's Sponsor has not independently verified the contents of this announcement.

This announcement has not been examined or approved by the Exchange and the Exchange assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr Ong Hwee Li (tel : (65) 6532 3829) at 1 Robinson Road #21-02 AIA Tower Singapore 048542.

SAC Capital Private Limited is the parent company of SAC Advisors Private Limited.



TABLE OF CONTENTS

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT	1
BALANCE SHEETS	3
CONSOLIDATED CASH FLOW STATEMENT	5
STATEMENTS OF CHANGES IN EQUITY	6
ACCOUNTING POLICIES	8
EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY	8
NET ASSET VALUE PER SHARE	9
REVIEW OF PERFORMANCE	9
FORECAST	15
RISK	15
PROSPECTS	16
DIVIDENDS	17
INTERESTED PARTY TRANSACTION	18
UNDERTAKING PURSUANT TO RULE 720(1)	18
NEGATIVE ASSURANCE	19



UNAUDITED RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2017

The directors of Megachem Limited are pleased to advise the following unaudited results of the Group for the half year ended 30 June 2017.

(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2017

	For the half year ended	For the half year ended	Variance	
	30 June 2017	30 June 2016	Favourable/(Unfavourable)	
	S\$	S\$	S\$'000	%
Revenue	51,412,719	51,294,942	118	0.2%
Cost of sales	<u>(38,948,946)</u>	<u>(38,463,928)</u>	(485)	(1.3%)
Gross profit	12,463,773	12,831,014	(367)	(2.9%)
Other income	2,108,075	308,164	1,800	584.1%
Distribution costs	(8,220,210)	(7,081,389)	(1,139)	(16.1%)
Administrative expenses	(2,490,733)	(2,514,299)	24	0.9%
Other operating expenses	(1,683,667)	(1,724,606)	41	2.4%
Finance costs	(245,151)	(290,623)	45	15.6%
Share of profit of associated companies	406,241	280,615	126	44.8%
Profit before income tax	2,338,328	1,808,876	529	29.3%
Income tax expense	<u>(136,953)</u>	<u>(888,317)</u>	751	84.6%
Net profit	<u>2,201,375</u>	<u>920,559</u>	1,281	139.1%
Other comprehensive income:				
Exchange differences on translating foreign operations, net of tax	<u>(412,552)</u>	<u>(675,037)</u>	262	38.9%
Total comprehensive income	<u>1,788,823</u>	<u>245,522</u>	1,543	628.6%
Net profit/(loss) attributable to:				
Equity holders of the Company	2,260,627	787,092	1,474	187.2%
Non-controlling interests	<u>(59,252)</u>	<u>133,467</u>	(193)	(144.4%)
Net profit	<u>2,201,375</u>	<u>920,559</u>	1,281	139.1%
Total comprehensive income/(loss) attributable to:				
Equity holders of the Company	1,912,448	246,742	1,666	675.1%
Non-controlling interests	<u>(123,625)</u>	<u>(1,220)</u>	(122)	NM
Total comprehensive income	<u>1,788,823</u>	<u>245,522</u>	1,543	628.6%
Earnings per share of profit attributable to equity holders of the Company during the financial year				
- basic and diluted	<u>1.70 cents</u>	<u>0.59 cents</u>	1.11	188.1%

NM : not meaningful.



The following items have been included in arriving at profit for the period:

	For the half year ended 30 June 2017 S\$	For the half year ended 30 June 2016 S\$
<u>Other income</u>		
Bad debt recovered	64,860	46,379
Change in fair value of financial assets at fair value through profit or loss	88,783	102,795
Dividend income	-	1,524
Gain on disposal of property, plant and equipment	21,984	40,699
Gain on dilution of interests in associated companies	1,839,187	-
Grant income	31,050	76,037
Interest income from banks	54,673	32,737
Rental income	7,538	7,993
	<u>2,108,075</u>	<u>308,164</u>
Change in fair value of financial assets at fair value through profit or loss		
- forward foreign exchange contracts	18,783	67,795
- listed equity security	70,000	35,000
Change in fair value of financial liabilities at fair value through profit or loss		
- forward foreign exchange contracts	(42,851)	(329,408)
Depreciation and amortisation	(684,273)	(732,289)
Interest on borrowings	(245,151)	(290,623)
Impairment of trade receivables	(1,254,536)	(385,262)
Net foreign exchange loss	(354,853)	(58,937)
Write off of inventory	(523,808)	(243,341)
Adjustment for over/(under) provision for tax in respect of prior reporting years	88,619	(10,179)



1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	<u>Group</u>		<u>Company</u>	
	30 June 2017 S\$	31 December 2016 S\$	30 June 2017 S\$	31 December 2016 S\$
ASSETS				
Non-current assets				
Property, plant and equipment	10,890,447	11,425,745	1,528,006	1,668,712
Investment property	81,206	83,387	-	-
Investments in subsidiaries	-	-	5,084,379	5,084,379
Investments in associated companies	5,222,394	3,126,186	2,798,756	2,798,756
Transferable club memberships	26,294	26,476	4,001	4,001
	<u>16,220,341</u>	<u>14,661,794</u>	<u>9,415,142</u>	<u>9,555,848</u>
Current assets				
Inventories	21,220,491	20,368,700	10,263,571	10,046,724
Trade and other receivables	24,450,997	24,233,154	18,147,280	16,147,339
Financial assets at fair value through profit or loss	239,029	216,919	220,000	150,000
Other current assets	3,495,475	2,168,578	683,007	368,184
Cash and bank balances	11,115,749	11,560,037	2,785,403	3,291,107
	<u>60,521,741</u>	<u>58,547,388</u>	<u>32,099,261</u>	<u>30,003,354</u>
Total assets	<u>76,742,082</u>	<u>73,209,182</u>	<u>41,514,403</u>	<u>39,559,202</u>
EQUITY AND LIABILITIES				
Capital and reserves attributable to equity holders of the Company				
Share capital	15,892,028	15,892,028	15,892,028	15,892,028
Other reserves	(4,880,870)	(4,532,691)	-	-
Retained earnings	31,956,704	30,629,177	8,337,526	8,809,402
	<u>42,967,862</u>	<u>41,988,514</u>	<u>24,229,554</u>	<u>24,701,430</u>
Non-controlling interests	<u>2,679,391</u>	<u>2,808,655</u>	<u>-</u>	<u>-</u>
Total equity	<u>45,647,253</u>	<u>44,797,169</u>	<u>24,229,554</u>	<u>24,701,430</u>
Non-current liabilities				
Borrowings	2,493,184	2,907,008	-	-
	<u>2,493,184</u>	<u>2,907,008</u>	<u>-</u>	<u>-</u>
Current liabilities				
Current income tax liabilities	77,713	62,923	23,000	-
Trade and other payables	12,463,324	13,006,569	6,683,550	6,863,060
Borrowings	16,017,348	12,418,443	10,566,684	7,994,712
Financial liabilities at fair value through profit or loss	43,260	17,070	11,615	-
	<u>28,601,645</u>	<u>25,505,005</u>	<u>17,284,849</u>	<u>14,857,772</u>
Total liabilities	<u>31,094,829</u>	<u>28,412,013</u>	<u>17,284,849</u>	<u>14,857,772</u>
Total equity and liabilities	<u>76,742,082</u>	<u>73,209,182</u>	<u>41,514,403</u>	<u>39,559,202</u>

1(b)(ii) Aggregate amount of group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

As at 30 June 2017		As at 31 December 2016	
Secured	Unsecured	Secured	Unsecured
S\$3,098,546	S\$12,918,802	S\$2,335,421	S\$10,083,022

Amount repayable after one year

As at 30 June 2017		As at 31 December 2016	
Secured	Unsecured	Secured	Unsecured
S\$2,493,184	-	S\$2,907,008	-

Details of collateral

The secured borrowings were collateralized on:

- i. fixed and floating charges over all the assets and undertaking of subsidiaries, including all present and future freehold and leasehold property, book and other debts, chattels, goodwill and uncalled capital, both present and future;
- ii. mortgage over property of a subsidiary located at 11 Tuas Link 1 Singapore 638588 and;
- iii. industrial land of a subsidiary at Seri Alam Industrial Park, Sungai Kapar Indah, Klang, Selangor, Malaysia



1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 30 JUNE 2017

	For the half year ended 30 June 2017 S\$	For the half year ended 30 June 2016 S\$
Cash flows from operating activities		
Net profit	2,201,375	920,559
Adjustments for:		
Change in fair value of financial assets	(70,000)	(35,000)
Depreciation charge	684,273	732,289
Dividend income	-	(2,137)
Gain on disposal of property, plant and equipment	(21,984)	(40,699)
Gain on dilution of interests in associated companies	(1,839,187)	-
Share of profit of associated companies	(406,241)	(280,615)
Income tax expense	136,953	888,317
Interest income	(54,673)	(32,124)
Finance costs	245,151	290,623
Operating cash flow before working capital changes	<u>875,667</u>	<u>2,441,213</u>
Change in operating assets and liabilities		
Trade and other receivables and other current assets	(1,656,912)	(1,676,865)
Inventories	(1,159,729)	(154,009)
Financial assets at fair value through profit or loss	47,890	(29,473)
Trade and other payables	(221,159)	(270,323)
Financial liabilities at fair value through profit or loss	26,190	248,908
Foreign exchange adjustment differences	(63,991)	(39,652)
Cash (used in)/from operations	<u>(2,152,044)</u>	<u>519,799</u>
Income tax paid	(318,529)	(841,905)
Interest received	54,673	32,124
Net cash used in operating activities	<u>(2,415,900)</u>	<u>(289,982)</u>
Cash flows from investing activities		
Dividends received from associated company and listed equity security	176,356	3,946,191
Purchase of property, plant and equipment	(196,551)	(380,262)
Proceeds from sale of property, plant and equipment	22,478	41,358
Subscription for shares in associated company	-	(2,698,807)
Net cash from investing activities	<u>2,283</u>	<u>908,480</u>
Cash flows from financing activities		
Dividends paid	(933,100)	(933,100)
Dividends paid by subsidiary to non-controlling shareholders	(5,639)	(76,854)
Repayments of long term bank loans	(365,414)	(361,129)
Proceeds from bills payables	3,932,403	869,730
Repayments of short term bank loans	(276,028)	(576,203)
Interest paid	(236,611)	(302,373)
Net cash from/(used in) financing activities	<u>2,115,611</u>	<u>(1,379,929)</u>
Net decrease in cash and cash equivalents held	<u>(298,006)</u>	<u>(761,431)</u>
Cash and cash equivalents, statement of cashflow, beginning balance	11,527,426	11,059,729
Effects of exchange rate changes on cash and cash equivalents	(113,671)	(137,006)
Cash and cash equivalents, statement of cashflow, ending balance	<u>11,115,749</u>	<u>10,161,292</u>
Cash and cash equivalents comprised the followings:		
Cash and bank balances	11,115,749	10,641,427
Less: bank overdraft	-	(480,135)
	<u>11,115,749</u>	<u>10,161,292</u>



1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

STATEMENTS OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2017

<u>The Group</u>	Attributable to equity holders of the Company					
	Total equity S\$	Parent Sub-total S\$	Share capital S\$	Other reserves S\$	Retained earnings S\$	Non-controlling interests S\$
Curent year :						
Opening balance at 1 January 2017	44,797,169	41,988,514	15,892,028	(4,532,691)	30,629,177	2,808,655
Total comprehensive income for the reporting period	1,788,823	1,912,448	-	(348,179)	2,260,627	(123,625)
Final dividend relating to 2016 paid	(933,100)	(933,100)	-	-	(933,100)	-
Final dividend payable to non- controlling interests	(5,639)	-	-	-	-	(5,639)
Closing balance at 30 June 2017	45,647,253	42,967,862	15,892,028	(4,880,870)	31,956,704	2,679,391
Previous year :						
Opening balance at 1 January 2016	45,083,816	42,195,764	15,892,028	(3,882,334)	30,186,070	2,888,052
Total comprehensive income for the reporting period	245,522	246,742	-	(540,350)	787,092	(1,220)
Final dividend relating to 2015 paid	(933,100)	(933,100)	-	-	(933,100)	-
Final dividend paid to non- controlling interests	(76,854)	-	-	-	-	(76,854)
Closing balance at 30 June 2016	44,319,384	41,509,406	15,892,028	(4,422,684)	30,040,062	2,809,978



<u>The Company</u>	Total equity S\$	Share capital S\$	Retained earnings S\$
Current year :			
Opening balance at 1 January 2017	24,701,430	15,892,028	8,809,402
Total comprehensive income for the reporting period	461,224	-	461,224
Final dividend relating to 2016 paid	(933,100)	-	(933,100)
Closing balance at 30 June 2017	<u>24,229,554</u>	<u>15,892,028</u>	<u>8,337,526</u>
Previous year :			
Opening balance at 1 January 2016	20,689,160	15,892,028	4,797,132
Total comprehensive income for the reporting period	4,887,837	-	4,887,837
Final dividend relating to 2015 paid	(933,100)	-	(933,100)
Closing balance at 30 June 2016	<u>24,643,897</u>	<u>15,892,028</u>	<u>8,751,869</u>

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

There have been no changes in the Company's issued share capital since the end of the previous financial year being 31 December 2016.

There were no unissued shares in the capital of the Company reserved for the exercise of any option nor were there any treasury share as at the end of the financial periods ended 30 June 2017 and 30 June 2016.

There were no outstanding convertibles and subsidiary holdings as at the end of the financial periods ended 30 June 2017 and 30 June 2016.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

The total number of issued ordinary shares, excluding treasury shares, as at the end of the financial period and year ended 30 June 2017 and 31 December 2016 was 133,300,000 shares.

1(d)(iv) A statement showing all sales, transfers, disposals, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

There were no sale, transfer, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.



1(d)(v) A statement showing all sales, transfers, disposals, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

There were no sale, transfer, disposal, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

2. Whether the figures have been audited, or reviewed and in accordance with which standard.

The figures have not been audited or reviewed.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as those of the audited financial statements for the financial year ended 31 December 2016.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

On 1 January 2017, the Group adopted the new and revised Financial Reporting Standards in Singapore ("FRS") and Interpretations to FRS ("INT FRS") that are relevant to its operations and mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective FRSs and INT FRS.

The adoption of the above amendments has no material impact on the Group's financial statements.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	For the half year ended 30 June 2017	For the half year ended 30 June 2016
Earnings per ordinary shares (in cents)		
a) Based on weighted average number of ordinary shares on issue	1.70	0.59
b) On a fully diluted basis	1.70	0.59
Weighted average number of ordinary shares in issue for earnings per share	133,300,000	133,300,000



7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:
(a) current financial year reported on; and
(b) immediately preceding financial year.

	30 June 2017	<u>Group</u> 31 December 2016	30 June 2017	<u>Company</u> 31 December 2016
Net asset value per ordinary share based on issued share capital (cents)	32.23	31.50	18.18	18.53
No of ordinary shares used in calculation	133,300,000	133,300,000	133,300,000	133,300,000

8. REVIEW OF PERFORMANCE

Some of the key financial highlights of the Group are as follows:

Profitability Highlights	H1 2016	H2 2016	H1 2017	Variance H1 2017 vs H2 2016		Variance H1 2017 vs H1 2016	
				Fav/(Unfav)	%	Fav/(Unfav)	%
Sales (S\$mil)	51.3	48.5	51.4	2.9	6.1%	0.1	0.2%
Gross profit (S\$mil)	12.8	12.4	12.5	-	0.2%	(0.4)	(2.9%)
Gross profit margin	25.0%	25.7%	24.2%	(1.5% pts)	na	(0.8% pts)	na
Total operating expenses and finance costs (S\$mil)	11.6	11.3	12.6	(1.3)	(11.8%)	(1.0)	(8.9%)
Other income (S\$'000)	308	424	2,108	1,684	397.3%	1,800	584.1%
Share of profit of associated companies (S\$'000)	281	279	406	127	45.7%	126	44.8%
Net profit before tax (S\$mil)	1.8	1.8	2.3	0.5	27.4%	0.5	29.3%
Net profit after tax (S\$mil)	0.9	1.3	2.2	0.9	68.1%	1.3	139.1%
Net profit after tax margin	1.8%	2.7%	4.3%	1.6% pts	na	2.5% pts	na
EBITDA (S\$mil)	2.8	2.8	3.2	0.4	15.4%	0.4	14.8%
EBITDA margin	5.5%	5.7%	6.2%	0.5% pts	na	0.7% pts	na
Earnings per share attributable to the equity holders of the Company (cents)	0.59	0.94	1.70	0.76	80.9%	1.11	188.1%
Annualised return on equity (ROE)	3.8%	6.0%	10.5%	4.5% pts	na	6.7% pts	na

8(a) PROFITABILITY ANALYSIS

8(a)(i) Sales

	H1 2016	H2 2016	H1 2017	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2017 vs H2 2016	%	H1 2017 vs H1 2016	%
ASEAN	34,492	31,780	35,151	3,371	10.6	659	1.9
North Asia	7,038	6,247	5,342	(905)	(14.5)	(1,696)	(24.1)
Europe	3,078	2,896	3,106	210	7.3	28	0.9
Middle East	1,945	2,082	2,810	728	35.0	865	44.5
South Asia	2,745	2,753	2,444	(309)	(11.2)	(301)	(11.0)
Australia	1,367	2,301	2,259	(42)	(1.8)	892	65.3
America	623	405	276	(129)	(31.9)	(347)	(55.7)
Africa	7	4	25	21	525.0	18	257.1
Total	51,295	48,468	51,413	2,945	6.1	118	0.2

Geographic Segment Sales Analysis

H1 2017 vs H2 2016

Sales increased by S\$2.9 million or 6.1% to S\$51.4 million in the first half of 2017 ("H1 2017") as compared to the second half of 2016 ("H2 2016"). The main increase in sales came from ASEAN market which went up by S\$3.4 million or 10.6%.

The fastest growing market in H1 2017 would be the Middle East which recorded growth rate of 35.0% or an increase in sales of S\$0.7 million. Sales to Australia market, which recorded strong growth of 68.3% in H2 2016 vis-à-vis H1 2016, was almost flat in H1 2017 as compared to H2 2016 while sales to Europe market increased by S\$0.2 million or 7.3%.

On the other hand, sales to North Asia and South Asia markets declined by S\$0.9 million or 14.5% and S\$0.3 million or 11.2% respectively.

H1 2017 vs H1 2016

Year-on-year, sales increased marginally by S\$0.1 million or 0.2% as compared to the first half of 2016 ("H1 2016"). Sales to Australia and Middle East markets improved substantially by 65.3% and 44.5% respectively or an increase in sales of S\$0.9 million each while sales to ASEAN market increased marginally by 1.9% or S\$0.7 million.

On the other hand, the biggest fall in sales came from markets in North Asia amounting to S\$1.7 million or 24.1%. Sales to America and South Asia markets each declined by S\$0.3 million as compared to H1 2016.

Business Activity Segment Sales Analysis

	H1 2016	H2 2016	H1 2017	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2017 vs H2 2016	%	H1 2017 vs H1 2016	%
Distribution activity	49,636	46,642	50,193	3,551	7.6	557	1.1
Manufacturing activity	1,659	1,826	1,220	(606)	(33.2)	(439)	(26.5)
Total Sales	51,295	48,468	51,413	2,945	6.1	118	0.2



H1 2017 vs H2 2016
H1 2017 vs H1 2016

The increase in sales came mainly from distribution activities while manufacturing activities fell by S\$0.6 million or 33.2% as compared to H2 2016 and by S\$0.4 million or 26.5% year-on-year mainly due to reduced demand from customers.

8(a)(ii) Gross profit

H1 2017 vs H2 2016

Gross profit margin for H1 2017 fell by 1.5%-point vis-à-vis H2 2016. This was mainly due to the recording of lower gross profit margins across major markets such as ASEAN, North Asia and Europe, partly because of higher inventory write off in the current period and the fall in sales from manufacturing activities.

As a result, gross profit remained relatively flat at S\$12.5 million despite an increase in sales of S\$2.9 million over H2 2016.

H1 2017 vs H1 2016

For the same reasons noted above, gross profit margin decreased by 0.8%-point as compared to H1 2016. As the marginal increase in sales was inadequate to compensate for the decline in costs of sales, gross profit for H1 2017 fell by S\$0.4 million or 2.9% as compared to H1 2016.

8(a)(iii) Other income

	H1 2016	H2 2016	H1 2017	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2017 vs H2 2016	%	H1 2017 vs H1 2016	%
Bad debt recovered	46	43	65	22	51.4	18	39.8
Change in fair value of financial assets at fair value through profit or loss							
- forward foreign exchange contracts	68	3	19	16	475.1	(49)	(72.3)
- listed equity security	35	5	70	65	NM	35	100.0
Grant income	76	58	31	(27)	(46.1)	(45)	(59.2)
Gain on disposal of plant and equipment	41	(1)	22	23	NM	(19)	(46.0)
Gain on dilution of interests in associated companies	-	-	1,839	1,839	100.0	1,839	100.0
Net foreign exchange gain	-	260	-	(260)	(100.0)	-	-

NM : not meaningful

H1 2017 vs H2 2016

Other income increased by S\$1.7 million to S\$2.1 million primarily due to a one-time valuation gain of S\$1.8 million arising from the listing of our associated company in the stock exchange in Thailand. Other increases include higher fair value gain from listed equity security and forward foreign exchange contracts of S\$65,000 and S\$16,000 respectively, higher bad debt recovered of S\$22,000 and higher gain on disposal of property, plant and equipment of S\$23,000.

This was partially offset by net foreign exchange gain of S\$260,000 recorded in H2 2016, as opposed to net foreign exchange loss of S\$355,000 recorded under operating expense in H1 2017, and lower grant income of S\$27,000.



H1 2017 vs H1 2016

Similarly, other income increased by S\$1.8 million year-on-year. Besides the one-time valuation gain of S\$1.8 million, fair value gain from listed equity security and bad debt recovered increased by S\$35,000 and S\$18,000 respectively.

This was partially offset by lower fair value gain from forward foreign exchange contracts of S\$49,000, lower grant income of S\$45,000 and lower gain on disposal of property, plant and equipment of S\$19,000.

8(a)(iv) Operating expenses

H1 2017 vs H2 2016

	H1 2016	H2 2016	H1 2017	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2017 vs H2 2016		H1 2017 vs H1 2016	
				S\$'000	%	S\$'000	%
Change in fair value of financial liabilities at fair value through profit or loss							
- forward foreign exchange contracts	329	(311)	43	(354)	(113.8)	287	87.0
Employee remuneration and related expenses	6,426	6,338	6,686	(349)	(5.5)	(261)	(4.1)
Impairment of trade receivables	385	651	1,255	(604)	(92.9)	(869)	(225.6)
Net foreign exchange loss/(reversal)	59	(59)	355	(413)	(700.4)	(296)	(502.1)
Professional fees	376	304	268	36	11.9	108	28.7
Travelling and transport	398	555	451	104	18.7	(54)	(13.5)

There were two main reasons that led to the increase in operating expenses in H1 2017 over H2 2016, namely unfavourable impact of foreign exchange and higher allowance for impairment of trade receivables.

While net foreign exchange loss of S\$355,000 and fair value loss of S\$43,000 were incurred in H1 2017, there was a reversal of net foreign exchange loss of S\$59,000 and a write back of fair value loss previously recorded of S\$311,000 in H2 2016. This accounted for the increase in operating expenses in H1 2016 by S\$0.8 million.

Secondly, allowance for impairment of trade receivables from Venezuela increased by S\$0.6 million as the foreign currency controls imposed on payments remained unresolved in H1 2017.

Partly offset by a reduction in travelling and transport expenses, overall operating expenses for H1 2017 increased by S\$1.3 million or 12.3% to S\$12.4 million as compared to H2 2016.

Excluding the allowance for impairment of trade receivables from Venezuela, operating expenses would have increase by S\$0.8 million or 7.6%.

H1 2017 vs H1 2016

As compared to H1 2016, operating expenses increased by S\$1.1 million or 9.5%, out of which allowance for impairment of trade receivables from Venezuela accounted for S\$0.9 million of the increase. Other costs increase such as staff costs of S\$0.3 million was partially offset by reduction in professional fees of S\$0.1 million for certain corporate-related consultancy fees.

Excluding the allowance for impairment of trade receivables from Venezuela, operating expenses would have increase by S\$0.2 million or 1.8%.

8(a)(v) Finance costs

Finance costs comprised the following:-

	H1 2016	H2 2016	H1 2017	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2017 vs H2 2016	H1 2017 vs H1 2016	H1 2017 vs H1 2016	H1 2017 vs H1 2016
				S\$'000	%	S\$'000	%
Bills payables	127	126	130	(4)	(3.3)	(3)	(2.6)
Bank loans	164	142	115	27	19.1	49	29.8
Bank overdraft	-	1	-	1	100.0	-	-
Total finance costs	291	269	245	24	8.9	45	15.6

H1 2017 vs H2 2016

H1 2017 vs H1 2016

As compared to H2 2016 and H1 2016, total finance costs fell by S\$24,000 and S\$45,000 respectively due to lower bank term loans although an increase in average trade borrowings resulted finance costs from bill payables to rise slightly.

8(a)(vi) Share of profit of associated companies

H1 2017 vs H2 2016

H1 2017 vs H1 2016

Our share of profit increased by S\$0.1 million or approximately 45% as compared to both comparative periods because of higher sales and better gross profit margin.

8(a)(vii) Profit before income tax

H1 2017 vs H2 2016

H1 2017 vs H1 2016

Profit before tax increased by S\$0.5 million or 27.4% and 29.3% over H2 2016 and H1 2016 respectively to achieve S\$2.3 million.

Vis-à-vis H2 2016, the increase was mainly due to higher share of profit of associated companies of S\$2.0 million offset by (i) negative net impact arising from foreign exchange and fair value of forward exchange contracts of S\$1.0 million and; (ii) higher allowance for impairment of trade receivables from Venezuela of S\$0.6 million as explained above.

Similarly, as compared to H1 2016, the increase was contributed by higher share of profit of associated companies of S\$2.0 million offset by (i) S\$0.9 million arising from higher allowance for impairment of trade receivables from Venezuela and; (ii) lower gross profit of S\$0.4 million.

Correspondingly, EBITDA increased by a smaller amount of S\$0.4 million or approximately 15% as compared to H2 2016 and H1 2016.

Excluding the one-time valuation gain of S\$1.8 million arising from the listing of our associated company in the stock exchange in Thailand, profit before tax and EBITDA would have decreased by S\$1.3 million and S\$1.4 million respectively vis-à-vis H2 2016 and H1 2016.

8(a)(viii) Net profit

As a result of lower profit before tax (excluding one-time valuation gain) and lesser withholding taxes paid in H1 2017, income tax expense fell by S\$0.4 million or 74.0% and S\$0.8 million or 84.6% over H2 2016 and H1 2016 respectively.

Correspondingly, net profit increased by S\$0.9 million or 68.1% and S\$1.3 million or 139.1% vis-à-vis H2 2016 and H1 2016 respectively.

8(a)(ix) Total comprehensive income

Although net profit was higher by S\$0.9 million in comparison, comprehensive income increased by S\$0.5 million or 40.2% as compared to H2 2016 because of translation losses incurred on foreign operations of S\$0.4 million in H1 2017. On the other hand, translation losses in H2 2016 was minimal.

As compared to H1 2016, comprehensive income increased by S\$1.5 million or 628.6% as translation losses on foreign operations was lower.

8(b) BALANCE SHEET ANALYSIS

Balance Sheet Highlights	As at		Variance
	31 December 2016	30 June 2017	30 June 2017 vs 31 December 2016
			Fav/(Unfav)
Cash (S\$'mil)	11.6	11.1	(0.4)
Borrowings (S\$'mil)	15.3	18.5	(3.2)
Current ratio (times)	2.3	2.1	(0.2)
Gearing ratio (times)	0.36	0.43	(0.07)
Net assets per share attributable to equity holders of the Company (cents)	31.50	32.23	0.73
Inventory turnover (days)	116	113	3
Trade receivables turnover (days)	94	92	2

Property, plant and equipment

The decrease in property, plant and equipment by S\$0.5 million or 4.7% was due to depreciation charge of S\$0.7 million for the current period offset by purchases of motor vehicles and computer equipment, furniture and fixtures of S\$0.2 million.

Investment in associated companies

The increase in carrying value of our associated companies by S\$2.1 million or 67.1% was mainly due to (i) one-time valuation gain of S\$1.8 million arising from the listing of our associated company and; (ii) positive contribution from operation for the current period of S\$0.4 million offset by dividend return of S\$0.2 million.

Trade and other receivables

Net third party trade receivables increased marginally by S\$0.1 million or 0.3% from S\$23.9 million as at 31 December 2016 to S\$24.0 million as at 30 June 2017 after recognizing an increase in allowance for impairment of S\$1.2 million as explained in the previous section.

Gross third party trade receivables in fact had increased by S\$1.3 million or 5.0% to S\$26.5 million as a result of higher sales in H1 2017 as compared to H2 2016. Turnover days for the current period remained relatively unchanged at 92 days as compared to 94 days for the full year of 2016.

Inventories

Inventories increased by S\$0.9 million or 4.2% to S\$21.2 million as at 30 June 2017 from S\$20.4 million as at 31 December 2016. This was in line with higher sales in H1 2017. Inventory turnover days remained relatively stable at 113 days as compared to 116 days for the full year of 2016.

Other current assets

Other current assets of S\$3.5 million increased by S\$1.3 million or 61.2% as compared to S\$2.2 million as at 31 December 2016. This was due to an increase of S\$1.0 million in advance payments to suppliers and higher prepayments of S\$0.2mil.



Financial assets and financial liabilities held for trading

The increase in financial assets held for trading was due to positive fair value gain of S\$70,000 in listed equity offset by a decrease in fair value gain of forward contracts of S\$48,000 from realization of contracts. Similarly, financial liabilities held for trading increased by S\$26,000 as a result of higher fair value losses from forward contracts as at 30 June 2017.

Trade and other payables

Corresponding to the increase in inventories, total trade payables increased by S\$0.4 million or 5.7% from S\$6.3 million as at 31 December 2016 to S\$6.7 million at 30 June 2017.

Other payables in aggregate consisting of accrued operating expenses and advance payments from customer decreased by S\$0.9 million from S\$6.7 million as at 31 December 2016 to S\$5.8 million as at 30 June 2017 primarily due to timing difference in payments.

Borrowings

Total borrowings increased by S\$3.2 million or 20.8% as S\$3.9 million additional trade borrowings were utilized to finance payments to suppliers and higher inventory purchases in the current period. On the other hand, both short term and long term bank loans in aggregate fell by S\$0.7 million as compared to 31 December 2016.

In line with higher borrowings, our gearing ratio increased from 0.36 times as at 31 December 2016 to 0.43 times as at 30 June 2017.

Net asset value

Net asset value per share increased from 31.50 cents as at 31 December 2016 to 32.23 cents as at 30 June 2017 as a result of comprehensive income for the current period of S\$1.9 million offset by dividends paid of S\$0.9 million.

8(c) CASH FLOW

Higher bank borrowings were utilized to fund the increase in working capital requirements, arising from higher inventory, receivables and other current assets, that was in line with higher sales in H1 2017. There was negligible cash flow from investing activities.

As a result, cash and cash equivalents decreased by S\$0.4 million to S\$11.1 million as at 30 June 2017 as compared to 31 December 2016

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

There was no forecast previously disclosed to shareholders.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

RISK FACTORS

We believe the imminent risks to our financial performance in the second half of 2017 ("H2 2017") are as follows:

The global economy

Although most economic researches indicate that the current economic growth cycle will prolong further, political uncertainties, China's economic growth transition, US exit from quantitative easing and concern over the fragility of the Euro zone, especially after Brexit, pose downside risks to the global economy. If these risk factors do not subside, it may weigh on the prospects for the global economy and the chemical industry. This will then have an impact on our business.

Volatility in energy prices

Volatility in energy prices may affect chemical prices and demand for chemicals.



Currency risk

We operate internationally and therefore are exposed to foreign currency risks arising from various currency exposures. The currency market remains volatile and difficult to predict. This poses a challenge to our currency risk management. While we will continue to hedge our exposure, we recognize that there is no perfect hedge. In addition, currencies of certain countries have limited liquidity and carry high hedging cost. Thus, any adverse changes in foreign currency may have an impact on our profitability.

Interest rate risk

Our interest rate risk arises from bank borrowings at floating rates. Any drastic increase in market interest rates will increase our borrowing cost.

Credit risk

Our products are sold to more than 2,000 customers across many countries. The credit risks in some countries are more difficult to assess. Any significant payment default will negatively impact on our financial performance.

Country risk

Our products are sourced and sold globally. Our business may be affected if any of our markets suffers significant escalation in country risk.

Inventory risk

Our business involves keeping inventory of chemicals to meet customers' requirements. In the event of an unexpected fall in customers' demand levels for any product, we may end up with excess inventory. This will have a negative impact on our profitability.

PROSPECTS

In the first half of 2017, there was an uptick in business confidence following a dip in the second half of 2016, enabling us to register higher sales as compared to second half of 2016 although it was relatively flat against the first half of 2016. Our net profit was effectively lower, if we do not factor in the one-off valuation gain from the listing of our associated company in stock exchange of Thailand, largely due to the higher allowance for impairment of Venezuela trade receivables.

The more favourable economic conditions are generally expected to extend into the second half of this year even as uncertainties persist. The IMF, in its latest World Economic Report, revised upwards its forecast of global economic growth.

This should provide support for Megachem's business as we continue to intensify our efforts to grow our business. We do not expect significant impairment of trade receivables in the second half of this year. We are therefore on a firmer footing than we were in the first half.

For the longer term, our efforts to nurture long term sustainable values through a sound business model, financial discipline and operational excellence remain relevant under current circumstances and should provide a sound foundation for our long term growth.



11. Dividend

(a) Current financial period reported on

Any interim dividend declared for the financial period ended? Yes

The directors are pleased to declare an interim tax exempt dividend of 0.5 cent per share in respect of the financial period ended 30 June 2017 as follows:

Name of dividend	Interim
Dividend type	Cash
Dividend amount per share (in cents)	0.5
Tax rate	Exempt

(b) Corresponding period of the immediately preceding financial year

Any dividend declared for the immediately preceding financial period ended 30 June 2016? Yes

Name of dividend	Interim
Dividend type	Cash
Dividend amount per share (in cents)	0.5
Tax rate	Exempt

(c) Date payable

The interim tax exempt dividend of 0.5 cent per share in respect of the financial period ended 30 June 2017 will be paid on 29 September 2017.

(d) Books closure date

The Transfer Books and Register of Members of the Company will be closed on 15 September 2017 for the purpose of determining member's entitlements to the proposed interim tax exempt dividend.

Duly completed and stamped transfers received by the Company's Share Registrar, Tricor Barbinder Share Registration Services (a division of Tricor Singapore Pte Ltd), 80 Robinson Road, #02-00, Singapore 068898, up to 5.00pm on 14 September 2017 will be registered to determine member's entitlement to the proposed dividend.

Members (being depositors) whose securities account with The Central Depository (Pte) Limited are credited with ordinary shares in the capital of the Company as at 5.00pm on 14 September 2017 will be entitled to the payment of the proposed dividend.

Payment of the interim tax exempt dividend of 0.5 cent per share will be made on 29 September 2017.

12. Related Parties and Interested Person Transactions

Name of interested person	Aggregate value of all interested person transactions during the financial period ended 30 June 2017 under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions during the financial period ended 30 June 2017 conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
Transportation services rendered by Ipem Automation Sdn. Bhd, a company owned by associates of Mr Chew Choon Tee, a director of Megachem Group	(Note 1)	Nil (Note 1)
Sales of products to Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations	(Note 2)	Nil (Note 2)
Purchase of products from Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations	(Note 3)	Nil (Note 3)
Purchase of products from SPCI Pte Ltd, a company of which Dr Tay Kin Bee is also a director	(Note 4)	Nil (Note 4)
Short term loan from Tan Bock Chia, a director of Megachem Group	(Note 5)	Nil (Note 5)

Note 1 : The Group entered into interested person transactions amounting in aggregate to S\$8,731 and each transaction was below S\$100,000 which fell outside the scope of Rule 920. There was no prior shareholders' mandate obtained for these interested person transactions.

Note 2 : The Group had no sales to Chori Co., Ltd and its related corporations.

Note 3 : The Group had no purchases from Chori Co., Ltd and its related corporations.

Note 4 : The Group entered into purchase transactions amounting in aggregate to S\$43,221 and each transaction was below S\$100,000 which fell outside the scope of Rule 920. There was no prior shareholders' mandate obtained for these interested person transactions.

Note 5 : The short term loan of S\$284,340 received by the Group is interest-free. The loan remained outstanding as at date of announcement.

13. Undertaking from directors and executive officers in pursuant to Rule 720(1).

The Company had procured signed undertakings from all its Directors and executive officers based on the latest revised form set out in Appendix 7H of the Catalist Rules.



Negative assurance confirmation on interim financial results under SGX Listing Rule 705(5) of the SGX Listing Manual, Section B: Rules of Catalyst

We, Chew Choon Tee and Tan Bock Chia being two directors of Megachem Limited, do hereby confirm on behalf of the Board of Directors that, to the best of our knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited results for the half year ended 30 June 2017 to be false or misleading in any material aspects.

On behalf of the Board of Directors

Chew Choon Tee
Executive Chairman

Tan Bock Chia
Executive Director

10 August 2017