



MEGACHEM LIMITED

Un-audited Financial Statements and Dividend Announcement

For The Half Year Ended
30 June 2018

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 David Yeong (tel : (65) 6532 3829) at 1 Robinson Road #21-00 AIA Tower Singapore 048542.



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 2018

The directors of Megachem Limited are pleased to advise the following unaudited results of the Group for the half year ended 30 June 2018.

(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 2018

	For the half year ended 30 June 2018 S\$	For the half year ended 30 June 2017 S\$	Variance Favourable/(Unfavourable) S\$'000 %	
Revenue	59,025,557	51,412,719	7,613	14.8%
Cost of sales	(44,083,972)	(38,948,946)	(5,135)	(13.2%)
Gross profit	14,941,585	12,463,773	2,478	19.9%
Other income	358,477	2,108,075	(1,750)	(83.0%)
Distribution costs	(7,683,201)	(8,220,210)	537	6.5%
Administrative expenses	(2,654,544)	(2,490,733)	(164)	(6.6%)
Other operating expenses	(1,961,147)	(1,683,667)	(277)	(16.5%)
Finance costs	(348,856)	(245,151)	(104)	(42.3%)
Share of profit of associated companies	380,646	406,241	(26)	(6.3%)
Profit before income tax	3,032,960	2,338,328	695	29.7%
Income tax expense	(634,706)	(136,953)	(498)	(363.4%)
Net profit	2,398,254	2,201,375	197	8.9%
Other comprehensive income:				
Exchange differences on translating foreign operations, net of tax	522,099	(412,552)	935	226.6%
Total comprehensive income	2,920,353	1,788,823	1,132	63.3%
Net profit/(loss) attributable to:				
Equity holders of the Company	2,263,705	2,260,627	3	0.1%
Non-controlling interests	134,549	(59,252)	194	327.1%
Net profit	2,398,254	2,201,375	197	8.9%
Total comprehensive income/(loss) attributable to:				
Equity holders of the Company	2,761,995	1,912,448	850	44.4%
Non-controlling interests	158,358	(123,625)	282	228.1%
Total comprehensive income	2,920,353	1,788,823	1,132	63.3%
Earnings per share of profit attributable to equity holders of the Company during the financial period				
- basic and diluted	1.70 cents	1.70 cents	-	-

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

	For the half year ended 30 June 2018 S\$	For the half year ended 30 June 2017 S\$
<u>Other income</u>		
Bad debt recovered	40,734	64,860
Change in fair value of financial assets at fair value through profit or loss	142,314	88,783
Gain on disposal of property, plant and equipment	44,748	21,984
Gain on dilution of interests in associated companies	-	1,839,187
Grant income	78,787	31,050
Interest income from banks	43,465	54,673
Net foreign exchange gain	-	-
Rental income	8,429	7,538
	358,477	2,108,075
Change in fair value of financial assets at fair value through profit or loss		
- forward foreign exchange contracts	142,314	18,783
- listed equity security	(200,000)	70,000
Change in fair value of financial liabilities at fair value through profit or loss		
- forward foreign exchange contracts	(12,260)	(42,851)
Depreciation and amortisation	(457,454)	(684,273)
Interest on borrowings	(348,856)	(245,151)
Impairment of trade receivables	(152,768)	(1,254,536)
Net foreign exchange loss	(536,678)	(354,853)
Write back/(write down) of inventory	68,651	(523,808)
Adjustment for over provision for tax in respect of prior reporting years	42,465	88,619
Gain on disposal of property plant and equipment	44,748	21,984

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 2018

	<u>Group</u>		<u>Company</u>	
	30 June 2018 S\$	31 December 2017 S\$	30 June 2018 S\$	31 December 2017 S\$
ASSETS				
Non-current assets				
Property, plant and equipment	10,985,714	10,856,528	1,462,265	1,596,963
Investment property	82,674	82,054	-	-
Investments in subsidiaries	-	-	5,871,772	5,284,379
Investments in associated companies	5,496,529	5,521,196	2,798,756	2,798,756
Transferable club memberships	27,570	26,952	4,001	4,001
Deferred tax assets	268,604	268,282	-	-
	<u>16,861,091</u>	<u>16,755,012</u>	<u>10,136,794</u>	<u>9,684,099</u>
Current assets				
Inventories	26,258,756	23,914,744	12,116,972	10,763,479
Trade and other receivables	28,096,412	27,661,192	18,433,401	18,329,223
Financial assets at fair value through profit or loss	519,523	581,533	380,000	580,000
Other current assets	2,870,609	1,647,396	458,272	341,079
Cash and bank balances	10,889,494	9,344,937	1,170,516	1,795,013
	<u>68,634,794</u>	<u>63,149,802</u>	<u>32,559,161</u>	<u>31,808,794</u>
Total assets	<u>85,495,885</u>	<u>79,904,814</u>	<u>42,695,955</u>	<u>41,492,893</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	(4,050,628)	(4,548,918)	-	-
Retained earnings	34,602,690	33,272,085	8,813,620	8,945,335
	<u>46,444,090</u>	<u>44,615,195</u>	<u>24,705,648</u>	<u>24,837,363</u>
Non-controlling interests	<u>2,737,164</u>	<u>2,578,806</u>	<u>-</u>	<u>-</u>
Total equity	<u>49,181,254</u>	<u>47,194,001</u>	<u>24,705,648</u>	<u>24,837,363</u>
Non-current liabilities				
Borrowings	1,749,040	2,120,264	-	-
	<u>1,749,040</u>	<u>2,120,264</u>	<u>-</u>	<u>-</u>
Current liabilities				
Current income tax liabilities	299,171	431,885	150,711	178,114
Trade and other payables	14,997,505	15,580,433	6,776,171	6,832,284
Borrowings	19,256,895	14,561,469	11,063,425	9,645,132
Financial liabilities at fair value through profit or loss	12,020	16,762	-	-
	<u>34,565,591</u>	<u>30,590,549</u>	<u>17,990,307</u>	<u>16,655,530</u>
Total liabilities	<u>36,314,631</u>	<u>32,710,813</u>	<u>17,990,307</u>	<u>16,655,530</u>
Total equity and liabilities	<u>85,495,885</u>	<u>79,904,814</u>	<u>42,695,955</u>	<u>41,492,893</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 2018		As at 31 December 2017	
Secured	Unsecured	Secured	Unsecured
S\$5,115,742	S\$14,141,153	S\$2,224,525	S\$12,336,944

Amount repayable after one year

As at 30 June 2018		As at 31 December 2017	
Secured	Unsecured	Secured	Unsecured
S\$1,749,040	-	S\$2,120,264	-

Details of collateral

The secured borrowings were collateralized on:

- 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;
- mortgage over property of a subsidiary located at 11 Tuas Link 1 Singapore 638588 and;
- 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 2018

	For the half year ended 30 June 2018 S\$	For the half year ended 30 June 2017 S\$
Cash flows from operating activities		
Net profit	2,398,254	2,201,375
Adjustments for:		
Change in fair value of financial assets	200,000	(70,000)
Depreciation charge	457,454	684,273
Gain on disposal of property, plant and equipment	(44,748)	(21,984)
Gain on dilution of interests in associated companies	-	(1,839,187)
Share of profit of associated companies	(380,646)	(406,241)
Income tax expense	634,706	136,953
Interest income	(43,465)	(54,673)
Finance costs	348,856	245,151
Operating cash flow before working capital changes	3,570,411	875,667
Change in operating assets and liabilities		
Trade and other receivables and other current assets	(1,557,978)	(1,656,912)
Inventories	(2,197,286)	(1,159,729)
Financial assets at fair value through profit or loss	(137,990)	47,890
Trade and other payables	(496,635)	(221,159)
Financial liabilities at fair value through profit or loss	(4,742)	26,190
Foreign exchange adjustment differences	(27,141)	(63,991)
Cash used in operations	(851,361)	(2,152,044)
Income tax paid	(766,265)	(318,529)
Interest received	43,465	54,673
Net cash used in operating activities	(1,574,161)	(2,415,900)
Cash flows from investing activities		
Dividends received from associated company	425,816	176,356
Purchase of property, plant and equipment	(482,470)	(196,551)
Proceeds from sale of property, plant and equipment	44,765	22,478
Net cash (used in)/from investing activities	(11,889)	2,283
Cash flows from financing activities		
Dividends paid	(933,100)	(933,100)
Dividends paid by subsidiary to non-controlling shareholders	-	(5,639)
Repayments of long term bank loans	(404,110)	(365,414)
Proceeds from bills payables	2,279,488	3,932,403
Proceeds/(repayments) of short term bank loans	2,437,056	(276,028)
Interest paid	(316,189)	(236,611)
Net cash from financing activities	3,063,145	2,115,611
Net increase/(decrease) in cash and cash equivalents held	1,477,095	(298,006)
Cash and cash equivalents, statement of cash flow, beginning balance	9,344,937	11,527,426
Effects of exchange rate changes on cash and cash equivalents	67,462	(113,671)
Cash and cash equivalents, statement of cash flow, ending balance	10,889,494	11,115,749
Cash and cash equivalents comprised the followings:		
Cash and bank balances	10,889,494	11,115,749
Less: bank overdraft	-	-
	10,889,494	11,115,749

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 2018

	Attributable to equity holders of the Company					
		Parent	Share	Other	Retained	Non-controlling
<u>The Group</u>	Total equity	Sub-total	capital	reserves	earnings	interests
	S\$	S\$	S\$	S\$	S\$	S\$
Current year :						
Opening balance at 1 January 2018	47,194,001	44,615,195	15,892,028	(4,548,918)	33,272,085	2,578,806
Total comprehensive income for the reporting period	2,920,353	2,761,995	-	498,290	2,263,705	158,358
Final dividend relating to 2017 paid	(933,100)	(933,100)	-	-	(933,100)	-
Closing balance at 30 June 2018	49,181,254	46,444,090	15,892,028	(4,050,628)	34,602,690	2,737,164
Previous 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 paid 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

<u>The Company</u>	Total equity S\$	Share capital S\$	Retained earnings S\$
Current year :			
Opening balance at 1 January 2018	24,837,363	15,892,028	8,945,335
Total comprehensive income for the reporting period	801,385	-	801,385
Final dividend relating to 2017 paid	(933,100)	-	(933,100)
Closing balance at 30 June 2018	<u>24,705,648</u>	<u>15,892,028</u>	<u>8,813,620</u>
Previous 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>

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 2017.

There were no unissued shares in the capital of the Company reserved for the exercise of any option nor were there any treasury shares as at the end of the financial periods ended 30 June 2018 and 30 June 2017.

There were no outstanding convertibles and subsidiary holdings as at the end of the financial periods ended 30 June 2018 and 30 June 2017.

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 2018 and 31 December 2017 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 2017.

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 2018, the Group adopted the new and revised Singapore Financial Reporting Standards (International) ("SFRS(I)") and the related Interpretations to SFRS(I)s ("SFRS(I) INT") 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 SFRS(I) and SFRS(I) INT.

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 2018	For the half year ended 30 June 2017
Earnings per ordinary shares (in cents)		
a) Based on weighted average number of ordinary shares on issue	1.70	1.70
b) On a fully diluted basis	1.70	1.70
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 2018	<u>Group</u> 31 December 2017	30 June 2018	<u>Company</u> 31 December 2017
Net asset value per ordinary share based on issued share capital (cents)	34.84	33.47	18.53	18.63
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 2017	H2 2017	H1 2018	Variance H1 2018 vs H2 2017		Variance H1 2018 vs H1 2017	
				Fav/(Unfav)	%	Fav/(Unfav)	%
Sales (S\$'mil)	51.4	56.7	59.0	2.3	4.1%	7.6	14.8%
Gross profit (S\$'mil)	12.5	14.1	14.9	0.8	5.6%	2.5	19.9%
Gross profit margin	24.2%	25.0%	25.3%	0.3% pts	na	1.1% pts	na
Total operating expenses and finance costs (S\$'mil)	12.6	12.1	12.6	(0.5)	(4.3%)	-	-
Other income (S\$'000)	2,108	438	358	(80)	(18.2%)	(1,750)	(83.0%)
Share of profit of associated companies (S\$'000)	406	412	381	(31)	(7.6%)	(26)	(6.3%)
Net profit before tax (S\$'mil)	2.3	2.9	3.0	0.2	5.7%	0.7	29.7%
Net profit after tax (S\$'mil)	2.2	2.0	2.4	0.4	20.3%	0.2	8.9%
Net profit after tax margin	4.3%	3.5%	4.1%	0.6% pts	na	(0.2% pts)	na
EBITDA (S\$'mil)	3.2	3.6	3.8	0.2	5.6%	0.6	18.1%
EBITDA margin	6.2%	6.3%	6.4%	0.1% pts	na	0.2% pts	na
Earnings per share attributable to the equity holders of the Company (cents)	1.70	1.48	1.70	0.22	14.9%	-	-
Annualised return on equity (ROE)	10.5%	8.9%	9.7%	0.8% pts	na	(0.8% pts)	na

na : not applicable

8(a) PROFITABILITY ANALYSIS

8(a)(i) Sales

	H1 2017	H2 2017	H1 2018	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2018 vs H2 2017	%	H1 2018 vs H1 2017	%
ASEAN	35,151	37,855	38,132	277	0.7	2,981	8.5
North Asia	5,342	6,519	8,302	1,783	27.3	2,960	55.4
Europe	3,106	3,770	3,838	68	1.8	732	23.5
Australia	2,259	2,685	2,907	222	8.3	648	28.6
Middle East	2,810	2,986	2,876	(110)	(3.7)	66	2.4
South Asia	2,444	2,567	2,494	(73)	(2.8)	50	2.1
America	276	307	477	170	55.3	201	73.3
Africa	25	-	-	-	-	(25)	(100.0)
Total	51,413	56,689	59,026	2,337	4.1	7,613	14.8

Geographic Segment Sales Analysis

H1 2018 vs H2 2017

Supported by strong growth from North Asia market, which jumped by S\$1.8 million or 27.3%, overall sales in the first half of 2018 ("H1 2018") improved slightly by S\$2.3 million or 4.1% as compared to the second half of 2017 ("H2 2017"). Sales to other markets such as Australia, ASEAN and America registered smaller increase of between S\$0.2 million to S\$0.3 million vis-à-vis H2 2017.

Sales to Middle East and South Asia markets each declined marginally by S\$0.1 million or 3.7% and 2.8% respectively.

H1 2018 vs H1 2017

As the global economy continues to expand, sales for H1 2018 increased by S\$7.6 million or 14.8% as compared to the first half of 2017 ("H1 2017"). The biggest increase came from North Asia, which grew substantially by 55.4%, and ASEAN markets with an increase in sales of S\$3.0 million each.

Our Australia and Europe markets continued to perform well with an increase in sales of S\$0.6 million or 28.6% and S\$0.7 million or 23.5% respectively while sales to America recorded a S\$0.2 million or 73.3% increase.

Sales to Middle East and South Asia markets remained relatively flat.

Business Activity Segment Sales Analysis

	H1 2017	H2 2017	H1 2018	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2018 vs H2 2017	%	H1 2018 vs H1 2017	%
Distribution activity	50,193	55,273	57,278	2,005	3.6	7,085	14.1
Manufacturing activity	1,220	1,416	1,748	332	23.4	528	43.3
Total Sales	51,413	56,689	59,026	2,337	4.1	7,613	14.8

H1 2018 vs H2 2017
H1 2018 vs H1 2017

Sales from the distribution segment grew by S\$2.0 million or 3.6% over H2 2017 and by S\$7.1 million or 14.1% over H1 2017 and was the main contributor to the improved total sales in H1 2018.

Sales from the contract manufacturing segment continued its upward trend to achieve S\$1.7 million for H1 2018. This represented an increase of S\$0.3 million or 23.4% as compared to H2 2017 and S\$0.5 million or 43.3% year-on-year.

8(a)(ii) Gross profit

H1 2018 vs H2 2017
H1 2018 vs H1 2017

Gross profit margin of 25.3% in H1 2018 was relatively unchanged vis-à-vis 25.0% in H2 2017.

As compared to 24.2% in H1 2017, gross profit margin improved by 1.1%-point primarily due to the absence of inventory write down in H1 2018 and lower manufacturing overheads as the plant and machinery used in contract manufacturing was almost fully depreciated by the end of H1 2017.

As a result of higher sales achieved in H1 2018, gross profit increased by 5.6% and 19.9% respectively as compared to both H2 2017 and H1 2017.

8(a)(iii) Other income

	H1 2017	H2 2017	H1 2018	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2018 vs H2 2017	%	H1 2018 vs H1 2017	%
Bad debt recovered	65	17	41	24	135.6	(24)	(37.2)
Change in fair value of financial assets at fair value through profit or loss							
- forward foreign exchange contracts	19	(17)	142	159	924.2	123	657.7
- listed equity security	70	360	-	(360)	(100.0)	(70)	(100.0)
Grant income	31	14	79	65	452.3	48	153.7
Gain on disposal of plant and equipment	22	10	45	35	333.5	23	103.5
Gain on dilution of interests in associated companies	1,839	-	-	-	-	(1,839)	(100.0)

H1 2018 vs H2 2017

Other income decreased by S\$80,000 to S\$0.4 million primarily due to the absence of S\$0.4 million fair value gain from listed equity. Fair value loss from listed equity of S\$0.2 million was recorded under operating expenses in H1 2018.

This was partially offset by higher fair value gain from forward foreign exchange contracts of S\$159,000, higher grant income of S\$65,000 and higher gain on disposal of plant and equipment of S\$35,000.

H1 2018 vs H1 2017

Similarly, other income decreased by S\$1.8 million year-on-year. This was primarily due to the absence of one-time valuation gain of S\$1.8 million arising from the listing of associated company in the stock exchange of Thailand in H1 2017 and the absence of S\$70,000 fair value gain from listed equity.

This was partially offset by higher fair value gain from forward foreign exchange contracts of S\$0.1 million, higher grant income of S\$48,000 and higher gain on disposal of plant and equipment of S\$23,000.

8(a)(iv) Operating expenses

H1 2018 vs H2 2017

	H1 2017	H2 2017	H1 2018	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2018 vs H2 2017	%	H1 2018 vs H1 2017	%
Change in fair value of financial assets at fair value through profit or loss - listed equity security	-	-	200	(200)	(100.0)	(200)	(100.0)
Employee remuneration and related expenses	6,686	6,713	7,170	(457)	(6.8)	(484)	(7.2)
Impairment of trade receivables	1,255	127	153	(26)	(20.1)	1,102	87.8
Net foreign exchange loss	355	470	537	(67)	(14.3)	(182)	(51.2)
Travelling and transport	451	602	519	83	14.0	(68)	(14.8)
Rental	1,283	1,360	1,333	27	2.0	(50)	(3.9)

There were two main reasons that led to the increase in operating expenses in H1 2018 over H2 2017, namely higher staff costs of S\$0.5 million and fair value loss from listed equity of S\$0.2 million.

Partly offset by a reduction in travelling and transport and rental expenses, the total operating expenses for H1 2018 increased slightly by S\$0.5 million or 3.9% to S\$12.3 million as compared to H2 2017.

H1 2018 vs H1 2017

Year-on-year, total operating expenses decreased marginally by S\$0.1 million or 0.8% and this was primarily due to allowance for impairment of trade receivables from Venezuela made in H1 2017.

Excluding the allowance for impairment of trade receivables from Venezuela, operating expenses would have increased by S\$1.1 million or 9.6% and this was mainly caused by higher staff costs of S\$0.5 million, higher net foreign exchange loss of S\$0.2 million, fair value loss from listed equity of S\$0.2 million and travelling and transport and rental expenses of S\$0.1 million.

8(a)(v) Finance costs

Finance costs comprised the following:-

	H1 2017	H2 2017	H1 2018	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2018 vs H2 2017	%	H1 2018 vs H1 2017	%
Bills payables	130	172	231	(59)	(34.4)	(101)	(77.6)
Bank loans	115	116	118	(2)	(1.9)	(3)	(2.3)
Total finance costs	245	288	349	(61)	(21.3)	(104)	(42.3)

H1 2018 vs H2 2017

H1 2018 vs H1 2017

As compared to H2 2017 and H1 2017, total finance costs for H1 2018 increased by S\$61,000 and S\$0.1 million respectively due to higher interest rates and an increase in trade borrowings to finance working capital requirements.

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

H1 2018 vs H2 2017
H1 2018 vs H1 2017

Our share of profit of associated companies for H1 2018 was relatively unchanged as compared to H2 2017 and H1 2017.

8(a)(vii) Profit before income tax

H1 2018 vs H2 2017
H1 2018 vs H1 2017

Profit before tax increased by S\$0.2 million or 5.7% vis-à-vis H2 2017 and this was mainly due to higher gross profit of S\$0.8 million partly offset by unfavourable variance in change in fair value of listed equity of S\$0.6 million.

Excluding the change in fair value of listed equity, profit before tax would have increased by S\$0.7 million or 28.8% over H2 2017.

Year-on-year, profit before income tax increased by S\$0.7 million or 29.7%. Similarly, the increase was contributed by higher gross profit of S\$2.5 million as well as the absence of S\$1.2 million allowance for impairment of trade receivables from Venezuela. However, this was offset by (i) absence of one-time valuation gain of S\$1.8 million arising from the listing of our associated company in the stock exchange in Thailand; (ii) unfavourable variance in change in fair value of listed equity of S\$0.3 million and (iii) higher operating expenses and finance costs (excluding change in fair value of listed equity) of S\$1.0 million.

Excluding the change in fair value of listed equity, one-time valuation gain arising from the listing of our associated company and the allowance for impairment of trade receivables from Venezuela, net profit before tax would have increased by S\$1.7 million or 108.3%.

Correspondingly, EBITDA increased by S\$0.2 million and S\$0.6 million respectively as compared to H2 2017 and H1 2017.

8(a)(viii) Net profit

H1 2018 vs H2 2017
H1 2018 vs H1 2017

Corresponding to higher net profit before tax of S\$0.2 million, net profit increased by S\$0.4 million or 20.3% vis-à-vis H2 2017 as income tax expense were lower by S\$0.2 million.

As compared to H1 2017, net profit increased by S\$0.2 million or 8.9% as income tax expenses were higher by S\$0.5 million as a result of higher operating profits.

8(a)(ix) Total comprehensive income

H1 2018 vs H2 2017
H1 2018 vs H1 2017

Due to higher net profit of S\$0.4 million and higher translation gains of S\$0.2 million, resulted mainly from the recovery of United States Dollar against Singapore Dollar, total comprehensive income increased by S\$0.6 million or 27.5% over H2 2017.

Year-on-year, as Malaysian Ringgit and United States Dollar recovered against Singapore Dollar, translation gains of S\$0.5 million were recognised in H1 2018 as opposed to S\$0.4 million translation losses incurred in H1 2017.

As a result, total comprehensive income for H1 2018 increased by S\$1.1 million or 63.3% vis-à-vis H1 2017 although net profit increased by a smaller magnitude of S\$0.2 million.

8(b) BALANCE SHEET ANALYSIS

Balance Sheet Highlights	As at		Variance
	31 December 2017	30 June 2018	30 June 2018 vs 31 December 2017 Fav/(Unfav)
Cash (S\$'mil)	9.3	10.9	1.5
Borrowings (S\$'mil)	16.7	21.0	(4.3)
Current ratio (times)	2.1	2.0	(0.1)
Gearing ratio (times)	0.37	0.45	(0.08)
Net assets per share attributable to equity holders of the Company (cents)	33.47	34.84	1.37
Inventory turnover (days)	115	118	(3)
Trade receivables turnover (days)	93	93	-

Property, plant and equipment

There was no significant change in the carrying value of property, plant and equipment. Capital expenditure of S\$0.5 million for motor vehicle and computer was offset by depreciation charge of S\$0.5 million in the current period.

Investment in associated companies

There was no significant change in the carrying value of our associated companies. Positive contribution from operation for the current period of S\$0.4 million offset by dividend return of S\$0.4 million.

Trade and other receivables

Net third party trade receivables increased marginally by S\$0.2 million or 0.7% from S\$27.1 million as at 31 December 2017 to S\$27.3 million as at 30 June 2018 mainly due to higher sales in H1 2018 as compared to H2 2017.

Turnover days for the current period remained stable at 93 days as compared to 93 days for the full year of 2017.

Inventories

Inventories jumped by S\$2.3 million or 9.8% to S\$26.3 million as at 30 June 2018 from S\$23.9 million as at 31 December 2017. This was in line with steady sales growth from H1 2017 to H1 2018. Inventory turnover days increased to 118 days as compared to 115 days for the full year of 2017.

Other current assets

Other current assets increased by S\$1.2 million to S\$2.9 million mainly due to S\$1.0 million higher advance payments to suppliers for inventory purchase and higher prepayments of S\$0.2 million.

Financial assets and financial liabilities at fair value through profit or loss

The decrease in financial assets at fair value through profit or loss was due to negative fair value loss of S\$0.2 million in listed equity offset by an increase in positive fair value gain of forward contracts of S\$0.1 million.

Financial liabilities at fair value through profit or loss were not significant as at 30 June 2018 and 31 December 2017.

Trade and other payables

Total trade payables decreased marginally by S\$0.2 million or 1.9% from S\$9.0 million as at 31 December 2017 to S\$8.8 million at 30 June 2018 mainly because of timing differences in payments.

Other payables in aggregate consisting of accrued operating expenses and advance payments from customer decreased by S\$0.4 million from S\$6.6 million as at 31 December 2017 to S\$6.2 million as at 30 June 2018 primarily due to repayment of amount due to director of S\$0.1 million and generally lower accrued operating expenses for the first half a financial year of S\$0.3 million.

Borrowings

Total borrowings increased substantially by S\$4.3 million or 25.9% as S\$4.7 million additional trade borrowings and short term bank loans were utilized to finance higher advance payments to suppliers and higher inventory purchases in the current period.

In line with higher borrowings, our gearing ratio increased from 0.37 times as at 31 December 2017 to 0.45 times as at 30 June 2018.

Net asset value

Net asset value per share increased from 33.47 cents as at 31 December 2017 to 34.84 cents as at 30 June 2018 as a result of comprehensive income for the current period of S\$2.8 million offset by dividends paid of S\$0.9 million.

8(c) CASH FLOW

Overall cash and cash equivalents increased by S\$1.5 million from S\$9.3 million as at 31 December 2017 to S\$10.9 million as at 30 June 2018.

The increase in working capital requirements, arising from higher inventory purchases and advance payments to supplier, was in line with higher sales in H1 2018 and this resulted in a deficit in cash from operations. As such, higher trade borrowings were drawn down to fund the operation.

Other cash obligations such as dividend payments and long term bank loans repayments were met from cash and cash equivalents carried forward.

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 2018 ("H2 2018") are as follows:

Global economy

Trade tensions, China's economic growth transition, tighter monetary policies, fragility of the Euro zone and stretched financial market valuations 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.

Financial market risk

Financial market activity and economic growth are closely linked. Many have warned of stretched market valuations. Should financial market risk escalates into a major correction, it may have an impact on economic growth and hence on our business prospect.

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 foreign exchange 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. Interest rate is expected to rise further throughout the rest of this year which 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 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.

H2 2018 OUTLOOK : GROWTH AMIDST MOUNTING UNCERTAINTIES

The year began on a positive note with the business landscape continuing on a positive path. As such, the chemical industry experienced higher demand and prices. From Megachem's perspective, our strong base of suppliers and customers has enabled us to grow our business across a wide spectrum of our market segments. In particular, our extensive network in Asia has benefitted from its growth in chemical demand which has outpaced other regions. We believe this will continue to provide support to our business for the rest of this year.

However there has been increasing unease in the external environment. While economic growth is widely expected to be positive, factors such as escalating trade tensions, rising interest rates, China's economic transition, fragile Euro zone and unstable financial markets may wane global growth.

Against a more volatile environment, we will continue to build resilience by improving our operational excellence and stepping up our risk management efforts.

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 0.7 cent per share in respect of the financial period ended 30 June 2018 as follows:

Name of dividend	Interim
Dividend type	Cash
Dividend amount per share (in cents)	0.7
Tax rate	Exempt

(b) Corresponding period of the immediately preceding financial year

Any dividend declared for the immediately preceding financial period ended 30 June 2017? 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 0.7 cent per share in respect of the financial period ended 30 June 2018 will be paid on 12 September 2018.

(d) Books closure date

The Transfer Books and Register of Members of the Company will be closed on 28 August 2018 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 27 August 2018 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 27 August 2018 will be entitled to the payment of the proposed dividend.

Payment of the interim tax exempt dividend of 0.7 cent per share will be made on 12 September 2018.

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 2018 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 2018 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 did not engage the services of Ipem Automation Sdn. Bhd. 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\$27,382 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\$185,310 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 Catalyst 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 2018 to be false or misleading in any material aspects.

On behalf of the Board of Directors

Chew Choon Tee	Tan Bock Chia
Executive Chairman	Executive Director

10 August 2018