



MEGACHEM LIMITED

Un-audited Financial Statements and Dividend Announcement

For The Full Year Ended
31 December 2014

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UNAUDITED RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2014

The directors of Megachem Limited are pleased to advise the following unaudited results of the Group for the full year ended 31 December 2014.

1(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 FULL YEAR ENDED 31 DECEMBER 2014

	For the full year ended 31 December 2014 S\$	For the full year ended 31 December 2013 S\$	Variance Favourable/(Unfavourable) S\$'000 %	
Sales	115,924,269	108,683,715	7,240	6.7%
Cost of sales	(92,468,197)	(87,104,480)	(5,364)	(6.2%)
Gross profit	23,456,072	21,579,235	1,877	8.7%
Other operating income	470,213	211,775	258	122.0%
Distribution costs	(12,544,898)	(11,265,151)	(1,280)	(11.4%)
Administrative expenses	(4,851,510)	(4,630,697)	(221)	(4.8%)
Other operating expenses	(2,790,018)	(3,378,251)	588	17.4%
Finance costs	(492,075)	(376,177)	(116)	(30.8%)
Share of profit of associated companies	1,011,364	1,710,064	(699)	(40.9%)
Profit before income tax	4,259,148	3,850,798	408	10.6%
Income tax expense	(1,066,939)	(1,064,874)	(2)	(0.2%)
Net profit	3,192,209	2,785,924	406	14.6%
Other comprehensive income:				
Exchange differences on translating foreign operations, net of tax				
	178,358	(280,581)	459	NM
Total comprehensive income	3,370,567	2,505,343	865	34.5%
Net profit attributable to:				
Equity holders of the Company	2,777,724	2,500,679	277	11.1%
Non-controlling interests	414,485	285,245	129	45.3%
Net profit	3,192,209	2,785,924	406	14.6%
Total comprehensive income attributable to:				
Equity holders of the Company	2,932,213	2,193,241	739	33.7%
Non-controlling interests	438,354	312,102	126	40.5%
Total comprehensive income	3,370,567	2,505,343	865	34.5%
Earnings per share of profit attributable to equity holders of the Company during the financial period				
- basic and diluted	2.08 cents	1.88 cents		

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

	For the full year ended 31 December 2014 S\$	For the full year ended 31 December 2013 S\$
<u>Other operating income</u>		
Bad debt recovered	63,382	7,959
Change in fair value of financial assets held for trading	107,040	101,688
Dividend income	516	527
Gain on disposal of property, plant and equipment	5,167	6,932
Grant income	40,653	14,700
Interest income from banks	42,105	43,917
Management fees	4,659	18,559
Net foreign exchange gain	189,580	-
Rental income	17,111	17,493
	470,213	211,775
Change in fair value of financial assets held for trading - forward foreign exchange contracts	47,040	92,688
Change in fair value of financial assets held for trading - listed equity security	60,000	9,000
Change in fair value of financial liabilities held for trading - forward foreign exchange contracts	(51,085)	(45,756)
Depreciation and amortisation	(1,513,262)	(1,477,242)
Interest on borrowings	(492,075)	(376,177)
Impairment of trade receivables	(120,654)	(95,329)
Net foreign exchange gain/(loss)	189,580	(658,956)
Write off of inventory	(715,975)	(246,368)
Adjustment for under provision for tax in respect of prior financial years	(10,436)	(72,283)

1(b)(i) A balance sheet (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 31 DECEMBER 2014

	<u>Group</u>		<u>Company</u>	
	31 December	31 December	31 December	31 December
	2014	2013	2014	2013
	S\$	S\$	S\$	S\$
ASSETS				
Current assets				
Cash and bank balances	8,999,243	8,541,129	2,204,579	1,562,182
Trade and other receivables	29,975,725	26,066,257	18,823,863	16,622,520
Inventories	21,517,159	19,824,073	10,791,527	10,497,460
Financial assets held for trading	147,040	132,688	100,000	41,440
Other current assets	1,825,261	1,946,472	854,565	359,609
	62,464,428	56,510,619	32,774,534	29,083,211
Non-current assets				
Transferable club memberships	30,307	30,818	4,001	4,001
Investment in associated companies	6,762,102	6,239,604	99,949	99,949
Investments in subsidiaries	-	-	5,019,751	4,484,251
Investment property	104,696	110,348	-	-
Property, plant and equipment	13,971,668	11,828,672	2,076,931	2,088,836
	20,868,773	18,209,442	7,200,632	6,677,037
Total assets	83,333,201	74,720,061	39,975,166	35,760,248
LIABILITIES				
Current liabilities				
Trade and other payables	16,485,621	14,156,136	5,746,052	5,694,079
Current income tax liabilities	337,638	296,316	51,266	101,829
Borrowings	19,068,847	17,673,530	15,114,163	10,308,842
Financial liabilities held for trading	51,085	45,756	-	-
	35,943,191	32,171,738	20,911,481	16,104,750
Non-current liabilities				
Deferred tax liabilities	21,059	40,000	20,000	40,000
Borrowings	2,850,000	-	-	-
	2,871,059	40,000	20,000	40,000
Total liabilities	38,814,250	32,211,738	20,931,481	16,144,750
NET ASSETS	44,518,951	42,508,323	19,043,685	19,615,498
EQUITY				
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	(2,540,305)	(2,694,794)	-	-
Retained earnings	28,571,092	27,118,465	3,151,657	3,723,470
	41,922,815	40,315,699	19,043,685	19,615,498
Non-controlling interests	2,596,136	2,192,624	-	-
Total equity	44,518,951	42,508,323	19,043,685	19,615,498

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

Amount repayable in one year or less, or on demand

As at 31 December 2014		As at 31 December 2013	
Secured	Unsecured	Secured	Unsecured
S\$600,000	S\$18,468,847	S\$4,880,719	S\$12,792,811

Amount repayable after one year

As at 31 December 2014		As at 31 December 2013	
Secured	Unsecured	Secured	Unsecured
S\$2,850,000	-	-	-

Details of collateral

The secured borrowings were collateralized on:

- i. mortgage over property located at 11 Tuas Link 1 Singapore 638588.

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE FULL YEAR ENDED 31 DECEMBER 2014

	For the full year ended 31 December 2014 S\$	For the full year ended 31 December 2013 S\$
Cash flows from operating activities		
Net profit	3,192,209	2,785,924
Adjustments for:		
Change in fair value of financial assets held for trading	(60,000)	(9,000)
Depreciation charge	1,513,262	1,477,242
Dividend income	(516)	(527)
Gain on disposal of property, plant and equipment	(5,167)	(6,932)
Share of profit of associated companies	(1,011,364)	(1,710,064)
Income tax expense	1,066,939	1,064,874
Interest income	(42,105)	(43,917)
Finance costs	492,075	376,177
Operating cash flow before working capital changes	5,145,333	3,933,777
Change in operating assets and liabilities		
Trade and other receivables	(3,886,043)	(1,712,627)
Inventories	(1,693,086)	(28,505)
Financial assets held for trading	45,648	(74,943)
Trade and other payables	1,411,351	538,958
Financial liabilities held for trading	5,329	28,293
Foreign exchange adjustment differences	(41,084)	(37,967)
Cash used in operations	987,448	2,646,986
Income tax paid	(946,772)	(1,128,981)
Interest received	42,105	43,917
Net cash from operating activities	82,781	1,561,922
Cash flows from investing activities		
Dividends received from associated company	755,012	779,629
Purchase of property, plant and equipment	(2,835,538)	(1,353,619)
Proceeds from sale of property, plant and equipment	5,896	8,886
Net cash used in investing activities	(2,074,630)	(565,104)
Cash flows from financing activities		
Dividends paid	(1,333,000)	(1,732,900)
Dividends paid by subsidiary to non-controlling shareholders	(34,842)	(22,841)
Proceeds from borrowings	3,394,452	377,799
Repayment of long term bank loan	(600,000)	(600,000)
Proceeds from short term bank loans	1,567,831	1,712,860
Refunds of prior year unclaimed dividends	7,903	-
Interest paid	(464,052)	(384,023)
Net cash from/(used in) financing activities	2,538,292	(649,105)
Net increase in cash and cash equivalents held	546,443	347,713
Cash and cash equivalents at beginning of the financial year	8,439,428	8,055,895
Effects of exchange rate changes on cash and cash equivalents	13,372	35,820
Cash and cash equivalents at end of the financial year	8,999,243	8,439,428
Cash and cash equivalents comprised the followings:		
Cash and bank balances	8,999,243	8,541,129
Less: bank overdraft	-	(101,701)
	8,999,243	8,439,428

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 FULL YEAR ENDED 31 DECEMBER 2014

	Attributable to equity holders of the Company					
		←			→	
<u>The Group</u>	Total equity S\$	Parent Sub-total S\$	Share capital S\$	Other reserves S\$	Retained earnings S\$	Non-controlling interests S\$
Balance at 1 January 2014	42,508,323	40,315,699	15,892,028	(2,694,794)	27,118,465	2,192,624
Total comprehensive income for the financial year	3,370,567	2,932,213	-	154,489	2,777,724	438,354
Final dividend relating to 2013 paid	(967,942)	(933,100)	-	-	(933,100)	(34,842)
Interim dividend relating to 2014 paid	(399,900)	(399,900)	-	-	(399,900)	-
Prior years unclaimed dividends refunded	7,903	7,903	-	-	7,903	-
Balance at 31 December 2014	44,518,951	41,922,815	15,892,028	(2,540,305)	28,571,092	2,596,136
Balance at 1 January 2013	41,758,721	39,855,358	15,892,028	(2,387,356)	26,350,686	1,903,363
Total comprehensive income for the financial year	2,505,343	2,193,241	-	(307,438)	2,500,679	312,102
Final dividend relating to 2012 paid	(1,355,841)	(1,333,000)	-	-	(1,333,000)	(22,841)
Interim dividend relating to 2013 paid	(399,900)	(399,900)	-	-	(399,900)	-
Balance at 31 December 2013	42,508,323	40,315,699	15,892,028	(2,694,794)	27,118,465	2,192,624

<u>The Company</u>	Total equity S\$	Share capital S\$	Retained earnings S\$
Balance at 1 January 2014	19,615,498	15,892,028	3,723,470
Total comprehensive income for the financial year	753,284	-	753,284
Final dividend relating to 2013 paid	(933,100)	-	(933,100)
Interim dividend relating to 2014 paid	(399,900)	-	(399,900)
Prior years unclaimed dividends refunded	7,903	-	7,903
Balance at 31 December 2014	<u>19,043,685</u>	<u>15,892,028</u>	<u>3,151,657</u>
Balance at 1 January 2013	21,146,837	15,892,028	5,254,809
Total comprehensive income for the financial year	201,561	-	201,561
Final dividend relating to 2012 paid	(1,333,000)	-	(1,333,000)
Interim dividend relating to 2013 paid	(399,900)	-	(399,900)
Balance at 31 December 2013	<u>19,615,498</u>	<u>15,892,028</u>	<u>3,723,470</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 also the number of shares that may be issued on conversion of all the outstanding convertibles as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares 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.

There have been no changes in the Company's issued share capital since the end of the previous financial period being 30 June 2014.

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

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 years ended 31 December 2014 and 31 December 2013.

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 years ended 31 December 2014 and 31 December 2013 was 133,300,000.

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 year as those of the audited financial statements for the financial year ended 31 December 2013.

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 2014, the Group adopted the new and revised 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 FRS 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 full year ended 31 December 2014	For the full year ended 31 December 2013
Earnings per ordinary shares (in cents)		
a) Based on weighted average number of ordinary shares on issue	2.08	1.88
b) On a fully diluted basis	2.08	1.88
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.

	<u>Group</u>		<u>Company</u>	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Net asset value per ordinary share based on issued share capital (cents)	31.45	30.24	14.29	14.72
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	H2 2014	H1 2014	H2 2013	H1 2013	Variance H2 2014 vs H1 2014		Variance H2 2014 vs H2 2013	
					Fav/(Unfav)	%	Fav/(Unfav)	%
Sales (S\$'mil)	60.3	55.6	56.8	51.9	4.7	8.4%	3.5	6.1%
Gross profit (S\$'mil)	12.5	11.0	11.1	10.4	1.5	13.7%	1.3	12.1%
Gross profit margin	20.7%	19.7%	19.6%	20.1%	1.0% pts	na	1.1% pts	na
Total expenses and finance costs (S\$'mil)	10.7	10.0	10.1	9.5	(0.7)	(7.1%)	(0.6)	(5.4%)
Other operating income (S\$'000)	337	133	151	61	205	153.9%	186	123.1%
Share of profit of associated companies (S\$'000)	545	466	646	1,064	79	17.0%	(101)	(15.6%)
Net profit before tax (S\$'mil)	2.7	1.6	1.8	2.1	1.1	68.0%	0.9	49.1%
Net profit after tax (S\$'mil)	2.1	1.1	1.3	1.5	0.9	79.5%	0.8	61.5%
Net profit after tax margin	3.4%	2.1%	2.2%	2.9%	1.3% pts	na	1.2% pts	na
EBITDA (S\$'mil)	3.7	2.5	2.7	3.0	1.1	44.9%	1.0	36.0%
Earnings per share attributable to the equity holders of the Company (cents)	1.32	0.76	0.87	1.01	0.56	73.7%	0.45	51.7%
Annualised return on equity (ROE)	8.4%	5.0%	5.7%	6.8%	3.4% pts	na	2.7% pts	na

Profitability Highlights	FY 2014	FY 2013	Variance FY 2014 vs FY 2013	
			Fav/(Unfav)	%
Sales (S\$'mil)	115.9	108.7	7.2	6.7%
Gross profit (S\$'mil)	23.5	21.6	1.9	8.7%
Gross profit margin	20.2%	19.9%	0.3% pts	na
Total expenses and finance cost (S\$'mil)	20.7	19.7	1.0	5.2%
Other operating income (S\$'000)	470	212	258	122.0%
Share of profit of associated companies (S\$'000)	1,011	1,710	(699)	(40.9%)
Net profit before tax (S\$'mil)	4.3	3.9	0.4	10.6%
Net profit after tax (S\$'mil)	3.2	2.8	0.4	14.6%
Net profit after tax margin	2.8%	2.6%	0.2% pts	na
EBITDA (S\$'mil)	6.2	5.7	0.6	9.9%
Earnings per share attributable to the equity holders of the Company (cents)	2.08	1.88	0.2	10.6%
Annualised return on equity (ROE)	6.6%	6.2%	0.4% pts	na

8(a) PROFITABILITY ANALYSIS

8(a)(i) Sales

← For the half year ended →							
	H2 2014	H1 2014	H2 2013	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H2 2014 vs H1 2014	%	H2 2014 vs H2 2013	%
				S\$'000		S\$'000	
ASEAN	37,725	39,225	36,907	(1,500)	(3.8)	818	2.2
North Asia	6,818	4,977	4,639	1,841	37.0	2,179	47.0
America	6,328	3,569	8,196	2,759	77.3	(1,868)	(22.8)
Europe	3,906	2,680	2,838	1,226	45.7	1,068	37.6
South Asia	2,443	1,975	2,249	468	23.7	194	8.6
Middle East	1,720	1,722	1,067	(2)	(0.1)	653	61.2
Australia	1,354	1,479	927	(125)	(8.5)	427	46.1
Africa	-	3	-	(3)	(100.0)	-	0.0
Total	60,294	55,630	56,823	4,664	8.4	3,471	6.1

	FY 2014		FY 2013		Variance Fav/(Unfav)	
	S\$'000	%	S\$'000	%	S\$'000	%
ASEAN	76,950	66.4	73,754	67.9	3,196	4.3
North Asia	11,794	10.2	9,001	8.3	2,793	31.0
America	9,898	8.5	11,435	10.5	(1,537)	(13.4)
Europe	6,586	5.7	5,590	5.1	996	17.8
South Asia	4,418	3.8	4,231	3.9	187	4.4
Middle East	3,442	3.0	2,494	2.3	948	38.0
Australia	2,833	2.4	2,086	1.9	747	35.8
Africa	3	0.0	93	0.1	(90)	(96.8)
Total	115,924	100.0	108,684	100.0	7,240	6.7

Geographic Segment Sales Analysis

H2 2014 vs H1 2014

The return of strong demand from the America markets, the recovery of the European economy albeit at a slower pace and the continued growth from China economy were the main drivers behind the growth in sales for the second half of 2014 ("H2 2014"). Sales to America surged by S\$2.8 million or 77.3% while sales to Europe and China grew by S\$1.2 million or 45.7% and S\$2.0 million or 57.9% respectively as compared to first half of 2014 ("H1 2014").

Although ASEAN and Australia markets contracted marginally after some healthy growth recorded in H1 2014, sales for H2 2014 ended with a record high of S\$60.3 million, a S\$4.7 million or 8.4% increase vis-à-vis H1 2014.

H2 2014 vs H2 2013

Compared to the second half of 2013 ("H2 2013"), most of the markets registered growth of various magnitude, with the exception of America which recorded historical high sales in H2 2013. This led to an overall increase in sales by S\$3.5 million or 6.1%.

FY 2014 vs FY 2013

With record half-yearly sales achieved in H2 2014, this pushed our sales for the full year of 2014 ("FY 2014") to S\$115.9 million, a commendable increase of S\$7.2 million as compared to full year of 2013 ("FY 2013").

Business Activity Segment Sales Breakdown

	H2 2014	H1 2014	H2 2013	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H2 2014 vs H1 2014	%	H2 2014 vs H2 2013	%
Distribution activity	58,533	54,038	55,009	4,495	8.3	3,524	6.4
Manufacturing activity	1,761	1,592	1,814	169	10.5	(53)	(3.0)
Total Sales	60,294	55,630	56,823	4,664	8.4	3,471	6.1

	FY 2014	FY 2013	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Distribution activity	112,571	105,231	7,340	7.0
Manufacturing Activity	3,353	3,453	(100)	(2.9)
Total Sales	115,924	108,684	7,240	6.7

H2 2014 vs H1 2014

H2 2014 vs H2 2013

Distribution segment remained as the main contributor to total sales. As noted from geographic segment sales analysis, distribution segment performed reasonably well in H2 2014 primarily from the improvement in the global economy.

Revenue from contract manufacturing increased by S\$169,000 or 10.5% as compared to H1 2014 as manufacturing activities were normally higher in the second half of the year. Revenue was relatively flat as compared to H2 2013.

FY 2014 vs FY 2013

Sales from distribution segment increased by S\$7.3 million or 7.0% while revenue from manufacturing segment contracted marginally by S\$0.1 million or 2.9%.

8(a)(ii) Gross profit

H2 2014 vs H1 2014

H2 2014 vs H2 2013

Gross profit margin for H2 2014 increased to 20.7% as compared to 19.7% in H1 2014 and 19.6% in H2 2013 mainly due to better gross profit from ASEAN market.

Gross profit contribution for H2 2014 increased by S\$1.5 million or 13.7% as compared to H1 2014 and S\$1.3 million or 12.1% vis-à-vis H2 2013.

FY 2014 vs FY 2013

Despite the higher inventory write off due to higher inventory holding, the increase in gross profit margin of 0.3%-point to 20.2% was attributable mainly to higher gross profit margin earned from indent sales to America. This led to a year-on-year increase in gross profit of S\$1.9 million or 8.7% as compared to the year before.

8(a)(iii) Other operating income

	FY 2014	FY 2013	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Bad debt recovered	63	8	55	696.4
Change in fair value of financial assets held for trading - listed equity security	60	9	51	566.7
Change in fair value of financial assets held for trading - forward foreign exchange contracts	47	93	(46)	(49.2)
Grant income	41	15	26	176.7
Net foreign exchange gain	190	-	190	100.0

Other operating income increased by S\$258,000 to S\$470,000 mainly due to net foreign exchange gain recorded for the current year of S\$0.2 million, as opposed to net foreign exchange loss suffered last year of S\$0.7 million, higher bad debt recovered, grant income received and fair value gain from listed equity security. This was partially offset by lower fair value gain from forward foreign exchange contracts.

8(a)(iv) Operating expenses

H2 2014 vs H1 2014

H2 2014 vs H2 2013

Higher remuneration and related expenses and rental expenses caused total operating expenses for H2 2014 up by S\$0.7 million or 6.7% vis-à-vis H1 2014 to S\$10.4 million. The increase in employee remuneration by S\$0.5 million was in line with better profitability of H2 2014 while higher inventory holding drove rental expenses up by S\$0.2 million. On the other hand, impairment charge for trade receivables was lower in H2 2014.

As compared to H2 2013, total operating expenses were also higher by S\$0.5 million or 4.8%. Similarly, remuneration and related expenses and rental expense accounted for majority of the increase, contributing S\$0.8 million and S\$0.3 million respectively. This was partially offset by net foreign exchange loss of S\$617,000 incurred for H2 2013 as compared to net foreign exchange gain for H2 2014.

FY 2014 vs FY 2013

Total operating expenses for FY 2014 amounted to S\$20.2 million and this represented an increase of S\$0.9 million or 4.7% as compared to last year.

The main variances in our operating expenses were as follows:

	FY 2014	FY 2013	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Employee remuneration and related expenses	11,711	10,698	(1,013)	(9.5)
Net foreign exchange loss	-	659	659	100.0
Professional fees	689	531	(158)	(29.8)
Rental	2,098	1,751	(347)	(19.8)

Employee remuneration remained the largest component of total operating expenses followed by rental expenses. In addition to the usual annual increment and additional headcount hired for expansion, the bigger

increase in employee remuneration was in line with better sales and gross profit performance in the current year.

Increased in warehousing rental rates and higher inventory holding during the year led to an increase in rental expenses for the year.

Higher professional fees incurred in the current year were primarily for tax-related consultancy fees, registration of trademarks and lawyers' fees for financing of the purchase of land in Malaysia.

8(a)(v) Finance costs

Finance costs comprised the following:-

	FY 2014	FY 2013	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Bills payables	287	178	(109)	(61.3)
Bank loans	205	198	(7)	(3.4)
Total finance costs	492	376	(116)	(30.8)

The increase in overall finance costs was in line with higher average borrowings in the current year as compared to FY 2013.

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

H2 2014 vs H1 2014

H2 2014 vs H2 2013

As the political situation in the country seemed to have cool down in H2 2014 and the Thai economy picked up slightly, performance of our associated companies also improved consequently. Therefore, our share of profit increased slightly by S\$79,000 or 17.0% vis-à-vis H1 2014.

FY 2014 vs FY 2013

Year-on-year, our share of profit decreased substantially by S\$0.7 million or 40.9% as the recovery in H2 2014 was not fast enough to compensate for the sharp decline suffered in H1 2014.

8(a)(vii) Profit before income tax

H2 2014 vs H1 2014

H2 2014 vs H2 2013

As a result of higher sales and gross profit achieved plus net foreign exchange gain recorded, net profit before tax for H2 2014 increased substantially by S\$1.1 million or 68.0% to S\$2.7 million as compared to H1 2014. For the same reasons as noted, net profit before tax for H2 2014 was higher by S\$0.9 million or 49.1% as compared to H2 2013.

FY 2014 vs FY 2013

Although our profitability was affected by lower share of profit from associated companies, net profit before tax for FY 2014 increased by S\$0.4 million or 10.6% year-on-year on the back of better sales and gross profit performance and favourable foreign exchange movement. Similarly, EBITDA was also higher by S\$0.6 million or 9.9%.

8(a)(viii) Net profit

Consistent with the above, net profit after tax increased by S\$0.9 million or 79.5% for H2 2014 to S\$2.1 million and year-on-year, it was up by S\$0.4 million or 14.6% to S\$3.2 million.

8(b) BALANCE SHEET ANALYSIS

Balance Sheet Highlights	As at		Variance
	31 December	31 December	31 December 2014 vs
	2014	2013	31 December 2013 Fav/(Unfav)
Cash (S\$'mil)	9.0	8.5	0.5
Borrowings (S\$'mil)	21.9	17.7	(4.2)
Current ratio	1.74	1.76	(0.02)
Gearing ratio	0.52	0.44	(0.08)
Net assets per share attributable to equity holders of the Company (cents)	31.45	30.24	1.21
Inventory turnover (days)	90	90	-
Trade receivables turnover (days)	89	85	(4)

Property, plant and equipment

Property, plant and equipment increased by S\$2.1 million or 18.1% mainly due to capital expenditure of S\$3.7 million, out of which S\$3.2 million related to progressive recognition on the purchase of industrial land in Malaysia. This was offset by depreciation of S\$1.5 million.

Associated companies

The increase in the carrying value of our investment by S\$0.5 million or 8.4% was in line with net positive contribution from our associated companies offset by dividend return.

Trade receivables

Net third party trade receivables jumped by S\$4.0 million or 15.6% from S\$25.5 million as at 31 December 2013 to S\$29.4 million as at 31 December 2014. This was partially due to record sales achieved for the current year. The second reason that led to the increase was the higher proportion of receivables outstanding from customers in South America as at year end. This also resulted in the increase in turnover days from 85 days to 89 days.

Inventory

In order to support higher sales achieved in the current year, inventory increased moderately from S\$19.8 million as at 31 December 2013 to S\$21.5 million at end of current year. Inventory turnover days remained stable at 90 days as compared to previous year.

Other current assets

Other current assets of S\$1.8 million, which consist mainly of advances to suppliers and prepayments, decreased marginally by S\$0.1 million as compared to S\$1.9 million as at 31 December 2013 mainly due to timing of payments.

Financial assets and financial liabilities held for trading

Financial assets held for trading increased by S\$14,000 as a result of upward market valuation of listed equity security by S\$60,000 offset by lower fair value of foreign exchange forward contracts of S\$46,000 recognised in the current year. Financial liabilities held for trading remained relatively unchanged as compared to last year.

Trade and other payables

Trade payables as at 31 December 2014 declined from S\$7.6 million last year to S\$7.4 million as at end of current year. This was offset by an increase in amount due to related party of S\$0.9 million which consist mainly of a short term loan from a director for working capital requirement of a subsidiary.

Other payables increased by S\$0.2 million mainly due to progressive payment for purchase of industrial land in Malaysia. This was offset by higher advance payments from customers of S\$1.3 million.

Borrowings

In order to finance capital expenditure on property, plant and equipment of S\$2.8 million and higher inventory purchases, bank borrowings increased by S\$4.2 million from S\$17.7 million to S\$21.9 million. Consequentially, our gearing ratio also went up to 0.52.

As at 31 December 2013, as the gearing ratio of one of the subsidiaries exceed the cap imposed by a bank, the long term portion which amounted to S\$3.45 million was classified as current. As at 31 December 2014, it was classified as non-current as the bank conditions were met.

Net asset value

Net asset value per share increased from 30.24 cents as at 31 December 2013 to 31.45 cents as at 31 December 2014 primarily due to total comprehensive income for the current year of S\$2.9 million offset by dividend payment to shareholders of S\$1.3 million.

8(c) CASH FLOW

Overall cash and cash equivalents increased by S\$0.6 million from S\$8.4 million as at 31 December 2013 to S\$9.0 million as at 31 December 2014. Proceeds from bank borrowings of S\$5.0 million were primarily to finance S\$2.8 million of capital expenditure on purchase of property, plant and equipment and higher working capital requirement. Other major cash outflow include dividend payments to shareholders of S\$1.3 million which was partially met by dividend received of S\$0.8 million.

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

In our earnings announcement for the first 6 months period ended 30 June 2014, we did not provide specific prediction of our performance for H2 2014.

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 year 2015 ("FY 2015") are as follows:

The global economy

Although conditions are positive for further growth in global economy, there remains downside risks such as that from Euro zone, deflationary risk in Japan and slower growth in China. If these risk factors materialise, there may be adverse impact on the chemical industry and our business.

Volatility in energy prices

Fall in oil price provides boost to economic activities especially for oil-importing countries. However if oil price rebound rapidly it may affect 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, 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' requirement. 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**External Environment**

General consensus indicates softer but still positive global growth, bolstered by impetus from the US economy, lower commodity prices especially oil and monetary easing from Euro zone, Japan and China. Uncertainty however lingers on over the extent stimulus measures can help pull the Euro zone out of their current doldrums and whether it can avert the risks arising from deflation in Japan. In addition the world will be concerned over how China manage a new "normal" of slower growth.

Highly correlated to economic activity, the chemical industry is therefore expected to continue its positive trend though materialization of the risks mentioned above can derail this trend.

Megachem's Strategy : A Balanced Approach

Against an uncertain economic backdrop and taking into considerations the opportunities and risks the external environment present, Megachem will adopt a balanced approach towards managing its business in 2015.

Asia-centric strategy

The importance of Asia to the specialty chemical industry cannot be underestimated. Asia's large and growing middle class increases Asia's purchasing power and demands better housing, more consumer goods and electronics, automotive and many others. The continuing industrialisation of Asia has also seen the rise of the manufacturing sector. This sector demands huge amounts of specialty chemicals to produce anything from electronics to cosmetics and pharmaceuticals products both for use within Asia and for export.

Our extensive network in Asia put us in a good position to capitalize on the vast opportunities that this region offers.

Financial Discipline

Uncertainty over how long the current economic growth business cycle will continue calls for a measured approach in managing our financial position. Megachem will thus strive to grow our business at a pace which is comfortable within our financial capacity so that we will be in good shape to weather any unforeseen changes in the external environment.

Prospects 2015

Given that economic outlook and conditions in the chemical industry are quite mixed, it is difficult to make any predictions of our prospects for 2015. We are however confident that our resilient and sound business model will deliver long term growth.

11. Dividend

(a) Current financial year reported on

Any dividend declared (recommended) for the current financial year ended 31 December 2014? Yes

The directors are pleased to recommend a final tax exempt dividend of 0.7 cent per share in respect of the financial year ended 31 December 2014 for approval by the shareholders at the next Annual General Meeting to be convened.

Name of dividend	Final	Interim
Dividend type	Cash	Cash
Dividend amount per share (in cents)	0.7	0.3
Tax rate	Exempt	Exempt
Date payable/paid	29 May 2015	30 September 2014
Book closure date	15 May 2015	12 September 2014

(b) Corresponding period of the immediately preceding financial year

Any dividend declared for the immediately preceding financial year ended 31 December 2013? Yes

Name of dividend	Final	Interim
Dividend type	Cash	Cash
Dividend amount per share (in cents)	0.7	0.3
Tax rate	Exempt	Exempt
Date paid	30 May 2014	27 September 2013
Book closure date	15 May 2014	12 September 2013

(c) Date payable

The final tax exempt dividend of 0.7 cent per share in respect of the financial year ended 31 December 2014, subject to approval by the shareholders at the next Annual General Meeting to be convened, will be paid on 29 May 2015.

(d) Books closure date

The Transfer Books and Register of Members of the Company will be closed on 15 May 2015 for the purpose of determining member's entitlements to the proposed final 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 May 2015 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 May 2015 will be entitled to the payment of the proposed dividend.

Payment of the final tax exempt dividend of 0.7 cent per share will be made on 29 May 2015.

12. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited financial statements, with comparatives information for the immediately preceding year.

Primary reporting format – Geographical segments by location of assets

	<u>Singapore</u>	<u>Malaysia</u>	<u>Indonesia</u>	<u>United Kingdom</u>	<u>Others</u>	<u>Unallocated</u>	<u>Group</u>
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
For the financial year ended							
31 December 2014							
Sales							
Total sales by segment	59,085	15,450	15,345	23,978	22,176	-	136,034
Inter-segment sales	(12,689)	(530)	(88)	(2,790)	(4,013)	-	(20,110)
	<u>46,396</u>	<u>14,920</u>	<u>15,257</u>	<u>21,188</u>	<u>18,163</u>	<u>-</u>	<u>115,924</u>
Segment result							
Interest income - bank	628	995	1,147	1,186	(258)	-	3,698
Finance costs						42	42
Share of profit of associated companies						(492)	(492)
Profit before income tax						1,011	1,011
Income tax expense						561	4,259
						(1,067)	(1,067)
Net profit	<u>628</u>	<u>995</u>	<u>1,147</u>	<u>1,186</u>	<u>(258)</u>	<u>(506)</u>	<u>3,192</u>
Other segment items							
Capital expenditure	356	3,238	55	1	76	-	3,726
Depreciation	1,259	110	38	22	84	-	1,513
Segment assets							
Associated companies	32,274	12,770	7,826	11,655	11,961	-	76,486
Interest earning cash balances						6,762	6,762
						85	85
Consolidated total assets	<u>32,274</u>	<u>12,770</u>	<u>7,826</u>	<u>11,655</u>	<u>11,961</u>	<u>6,847</u>	<u>83,333</u>
Segment liabilities							
Borrowings	(5,282)	(1,553)	(806)	(6,105)	(2,790)	-	(16,536)
Current income tax liabilities						(21,919)	(21,919)
Deferred income tax liabilities						(338)	(338)
						(21)	(21)
Consolidated total liabilities	<u>(5,282)</u>	<u>(1,553)</u>	<u>(806)</u>	<u>(6,105)</u>	<u>(2,790)</u>	<u>(22,278)</u>	<u>(38,814)</u>

	<u>Singapore</u>	<u>Malaysia</u>	<u>Indonesia</u>	<u>United Kingdom</u>	<u>Others</u>	<u>Unallocated</u>	<u>Group</u>
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
For the financial year ended 31 December 2013							
Sales							
Total sales by segment	52,507	17,048	14,569	24,965	17,142	-	126,231
Inter-segment sales	(10,768)	(618)	(120)	(2,526)	(3,515)	-	(17,547)
	<u>41,739</u>	<u>16,430</u>	<u>14,449</u>	<u>22,439</u>	<u>13,627</u>	<u>-</u>	<u>108,684</u>
Segment result							
Interest income - bank	369	1,560	524	1,005	(985)	-	2,473
Finance costs						44	44
						(376)	(376)
Share of profit of associated companies						1,710	1,710
Profit before income tax						1,378	3,851
Income tax expense						(1,065)	(1,065)
Net profit	<u>369</u>	<u>1,560</u>	<u>524</u>	<u>1,005</u>	<u>(985)</u>	<u>313</u>	<u>2,786</u>
Other segment items							
Capital expenditure	704	15	15	54	46	-	834
Depreciation	<u>1,215</u>	<u>113</u>	<u>50</u>	<u>15</u>	<u>84</u>	<u>-</u>	<u>1,477</u>
	<u>Singapore</u>	<u>Malaysia</u>	<u>Indonesia</u>	<u>United Kingdom</u>	<u>Others</u>	<u>Unallocated</u>	<u>Group</u>
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Segment assets							
Segment assets	30,794	10,269	7,928	10,419	8,171	-	67,581
Associated companies						6,240	6,240
Interest earning cash balances						899	899
Consolidated total assets	<u>30,794</u>	<u>10,269</u>	<u>7,928</u>	<u>10,419</u>	<u>8,171</u>	<u>7,139</u>	<u>74,720</u>
Segment liabilities							
Segment liabilities	(5,139)	(691)	(617)	(6,312)	(1,444)	-	(14,202)
Borrowings						(17,674)	(17,674)
Current income tax liabilities						(296)	(296)
Deferred income tax liabilities						(40)	(40)
Consolidated total liabilities	<u>(5,139)</u>	<u>(691)</u>	<u>(617)</u>	<u>(6,312)</u>	<u>(1,444)</u>	<u>(18,010)</u>	<u>(32,212)</u>

12. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited financial statements, with comparatives information for the immediately preceding year (cont'd).

Secondary reporting format – Business segments

	<u>Distribution</u> S\$'000	<u>Manufacturing</u> S\$'000	<u>Unallocated</u> S\$'000	<u>Group</u> S\$'000
For the financial year ended				
31 December 2014				
Sales				
Total sales by segment	132,241	3,793	-	136,034
Inter-segment sales	(19,670)	(440)	-	(20,110)
	<u>112,571</u>	<u>3,353</u>	<u>-</u>	<u>115,924</u>
Segment result	3,875	(177)	-	3,698
Interest income - bank			42	42
Finance costs			(492)	(492)
Share of profit of associated companies			<u>1,011</u>	<u>1,011</u>
Profit before income tax			561	4,259
Income tax expense			(1,067)	(1,067)
Net profit	<u>3,875</u>	<u>(177)</u>	<u>(506)</u>	<u>3,192</u>
Other segment items				
Capital expenditure	3,706	20	-	3,726
Depreciation	<u>602</u>	<u>911</u>	<u>-</u>	<u>1,513</u>
	<u>Distribution</u> S\$'000	<u>Manufacturing</u> S\$'000	<u>Unallocated</u> S\$'000	<u>Group</u> S\$'000
Segment assets	67,590	8,896	-	76,486
Associated companies			6,762	6,762
Interest earning cash balances			<u>85</u>	<u>85</u>
Consolidated total assets	<u>67,590</u>	<u>8,896</u>	<u>6,847</u>	<u>83,333</u>
Segment liabilities	(16,088)	(448)	-	(16,536)
Borrowings			(21,919)	(21,919)
Current income tax liabilities			(338)	(338)
Deferred income tax liabilities			<u>(21)</u>	<u>(21)</u>
Consolidated total liabilities	<u>(16,088)</u>	<u>(448)</u>	<u>(22,278)</u>	<u>(38,814)</u>

**For the financial year ended
31 December 2013**

Sales

	<u>Distribution</u> S\$'000	<u>Manufacturing</u> S\$'000	<u>Unallocated</u> S\$'000	<u>Group</u> S\$'000
Total sales by segment	122,261	3,970	-	126,231
Inter-segment sales	(17,030)	(517)	-	(17,547)
	<u>105,231</u>	<u>3,453</u>	<u>-</u>	<u>108,684</u>

Segment result

	2,627	(154)	-	2,473
Interest income - bank			44	44
Finance costs			(376)	(376)
Share of profit of associated companies			<u>1,710</u>	<u>1,710</u>
Profit before income tax			1,378	3,851
Income tax expense			<u>(1,065)</u>	<u>(1,065)</u>
Net profit	<u>2,627</u>	<u>(154)</u>	<u>313</u>	<u>2,786</u>

Other segment items

Capital expenditure	614	220	-	834
Depreciation	<u>567</u>	<u>910</u>	<u>-</u>	<u>1,477</u>

	<u>Distribution</u> S\$'000	<u>Manufacturing</u> S\$'000	<u>Unallocated</u> S\$'000	<u>Group</u> S\$'000
Segment assets	57,670	9,911	-	67,581
Associated companies			6,240	6,240
Interest earning cash balances			<u>899</u>	<u>899</u>
Consolidated total assets	<u>57,670</u>	<u>9,911</u>	<u>7,139</u>	<u>74,720</u>
Segment liabilities	(13,699)	(503)	-	(14,202)
Borrowings			(17,674)	(17,674)
Current income tax liabilities			(296)	(296)
Deferred income tax liabilities			<u>(40)</u>	<u>(40)</u>
Consolidated total liabilities	<u>(13,699)</u>	<u>(503)</u>	<u>(18,010)</u>	<u>(32,212)</u>

13. In view of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.

Please refer to section 8(a) Profitability Analysis.

14. A breakdown of sales

	Full year ended 31 December 2014 S\$'000	Full year ended 31 December 2013 S\$'000	Variance Increase/ (decrease) S\$'000 %	
<u>Sales</u>				
(a) Sales for the first half ("H1")	55,630	51,861	3,769	7.3%
(b) Sales for the second half ("H2")	60,294	56,823	3,471	6.1%
<i>Increase/(decrease) H2 from H1</i>	4,664	4,962		
<i>Increase/(decrease) H2 from H1 (in %)</i>	8.4%	9.6%		
<u>Profit after tax</u>				
(c) Profit after tax and before attributing to non-controlling interests for H1	1,142	1,516	(374)	(24.7%)
(d) Profit after tax and before attributing to non-controlling interests for H2	2,050	1,269	781	61.5%
<i>Increase/(decrease) H2 from H1</i>	908	(247)		
<i>Increase/(decrease) H2 from H1 (in %)</i>	79.5%	(16.3%)		

15. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and previous full year.

Total annual dividend paid	Full year ended	Full year ended
Ordinary	31 December 2014 S\$	31 December 2013 S\$
	1,333,000	1,732,900

16. Related Parties and Interested Person Transactions

Name of interested person	Aggregate value of all interested person transactions during the financial year ended 31 December 2014 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 year ended 31 December 2014 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 5)
Sales of products to Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations	(Note 2)	Nil (Note 5)
Purchase of products from Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations	(Note 2)	Nil (Note 5)

Name of interested person	Aggregate value of all interested person transactions during the financial year ended 31 December 2014 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 year ended 31 December 2014 conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
Purchase of products from SPCI Pte Ltd, a company of which Dr Tay Kin Bee is also a director	(Note 3)	Nil (Note 5)
Short term loan from Tan Bock Chia, a director of Megachem Group	(Note 4)	Nil (Note 5)

Note 1 : The Group entered into interested person transactions amounting in aggregate to S\$127,652 and each transaction was below S\$100,000 which fell outside the scope of Rule 920.

Note 2 : The Group entered into sales and purchase transactions amounting to S\$3,479 and S\$132,587 respectively and each transaction was below S\$100,000 which fell outside the scope of Rule 920.

Note 3 : The Group entered into purchase transactions amounting to S\$126,932 and each transaction was below S\$100,000 which fell outside the scope of Rule 920.

Note 4 : The short term loan of S\$852,400 received by the Group received is interest-free. The loan remained outstanding as at date of announcement.

Note 5 : There was no prior shareholders' mandate obtained for the interested person transactions.

17. Disclosure of person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the issuer pursuant to Rule 704(10).

Name	Age	Family relationship with any director and/or substantial shareholder	Current position and duties, and the year the position was first held	Details of changes in duties and position held, if any, during the year
Liau Bin Bin	48	Spouse of Mr Chew Choon Tee, the Executive Chairman and Managing Director and substantial shareholder of the Company	Managing Director of CN Chemicals Sdn Bhd since 1 January 2009.	Nil

The following directors and substantial shareholders have confirmed that as at 31 December 2014, they do not have any relatives who are holding a managerial position in the Company or any of its principal subsidiaries:-

Tan Bock Chia	Director and substantial shareholder
Chan Kam Loon	Director
Lee Bon Leong	Director
Saito Atsushi	Director
Tay Kin Bee	Director

On behalf of the Board of Directors

Chew Choon Tee Executive Chairman 16 February 2015	Tan Bock Chia Executive Director
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