



MEGACHEM LIMITED

Un-audited Financial Statements and Dividend Announcement

For The Half Year Ended
30 June 2020

This announcement has been reviewed by the Company's Sponsor, SAC Capital Private Limited (the "Sponsor").

This announcement has not been examined or approved by the Singapore Exchange Securities Trading Limited ("the Exchange") and the Exchange assumes no responsibility for its contents, including the correctness of any of the statements or opinions made, or reports contained in this announcement.

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UNAUDITED RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2020

The directors of Megachem Limited are pleased to advise the following unaudited results of the Group for the half year ended 30 June 2020.

1(a) An income statement and statement of comprehensive income or a statement of comprehensive income 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 2020

	Unaudited For the half year ended 30 June 2020 S\$	Unaudited For the half year ended 30 June 2019 S\$	Variance Favourable/(Unfavourable) S\$'000 %	
Revenue	52,017,444	55,778,041	(3,761)	(6.7%)
Cost of sales	<u>(38,816,567)</u>	<u>(41,703,066)</u>	2,886	6.9%
Gross profit	13,200,877	14,074,975	(874)	(6.2%)
Other income	1,051,008	223,121	828	371.0%
Distribution costs	(7,412,659)	(7,731,271)	319	4.1%
Administrative expenses	(2,749,362)	(2,703,845)	(46)	(1.7%)
Other operating expenses	(1,293,714)	(1,274,913)	(19)	(1.5%)
Finance costs	(424,986)	(497,358)	72	14.6%
Share of profit of associated companies	885,692	475,713	410	86.2%
Profit before income tax	3,256,856	2,566,422	690	26.9%
Income tax expense	<u>(437,402)</u>	<u>(550,866)</u>	113	20.6%
Net profit after tax	2,819,454	2,015,556	804	39.9%
Other comprehensive income:				
Exchange differences on translating foreign operations, net of tax	153,527	106,086	47	44.7%
Total comprehensive income	2,972,981	2,121,642	851	40.1%
Net profit attributable to:				
Equity holders of the Company	2,699,939	1,921,556	778	40.5%
Non-controlling interests	<u>119,515</u>	<u>94,000</u>	26	27.1%
Net profit	2,819,454	2,015,556	804	39.9%
Total comprehensive income attributable to:				
Equity holders of the Company	2,796,320	2,046,903	749	36.6%
Non-controlling interests	<u>176,661</u>	<u>74,739</u>	102	136.4%
Total comprehensive income	2,972,981	2,121,642	851	40.1%
Earnings per share of profit attributable to equity holders of the Company during the financial period				
- basic and diluted	<u>2.03 cents</u>	<u>1.44 cents</u>	0.59 cents	41.0%

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

	Unaudited For the half year ended 30 June 2020 S\$	Unaudited For the half year ended 30 June 2019 S\$
<u>Other income</u>		
Bad debt recovered	99,706	74,016
Change in fair value of financial assets at fair value through profit or loss	55,123	28,072
Dividend income	4,780	2,934
Gain on disposal of property, plant and equipment	17,391	4,806
Grant income	635,328	16,737
Interest income from banks	96,328	88,265
Net foreign exchange gain	134,073	-
Rental income	8,279	8,291
	1,051,008	223,121
Change in fair value of financial assets at fair value through profit or loss		
- forward foreign exchange contracts	27,623	28,072
- listed equity security	27,500	-
Change in fair value of financial liabilities at fair value through profit or loss		
- forward foreign exchange contracts	(31,880)	(12,989)
Depreciation and amortisation	(626,432)	(616,777)
Finance costs	(424,986)	(497,358)
Impairment of trade receivables	(54,076)	(82,295)
Net foreign exchange gain/(loss)	134,073	(22,781)
Write down of inventory	(440,808)	(11,690)
Adjustment for over provision for tax in respect of prior reporting years	44,002	14,690
Gain on disposal of property, plant and equipment	17,391	4,806

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 2020

	<u>Group</u>		<u>Company</u>	
	<u>Unaudited</u>	<u>Audited</u>	<u>Unaudited</u>	<u>Audited</u>
	<u>30 June</u>	<u>31 December</u>	<u>30 June</u>	<u>31 December</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>S\$</u>	<u>S\$</u>	<u>S\$</u>	<u>S\$</u>
ASSETS				
Non-current assets				
Property, plant and equipment	9,976,960	10,288,945	1,270,394	1,345,621
Construction-in-progress	354,303	-	-	-
Right-of-use assets	2,618,528	2,803,351	1,118,733	1,135,430
Investment property	73,733	75,886	-	-
Investments in subsidiaries	-	-	5,871,772	5,871,772
Investments in associated companies	7,268,956	6,609,815	2,798,756	2,798,756
Transferable club memberships	26,773	26,959	4,001	4,001
Other receivables	-	-	837,420	808,080
Deferred tax assets	434,661	442,306	-	-
	<u>20,753,914</u>	<u>20,247,262</u>	<u>11,901,076</u>	<u>11,963,660</u>
Current assets				
Inventories	25,840,336	25,419,242	11,606,073	9,738,588
Trade and other receivables	20,273,281	22,945,824	14,921,372	14,704,424
Financial assets at fair value through profit or loss	276,798	227,490	250,111	222,500
Other current assets	2,076,405	2,444,336	570,333	334,383
Cash and bank balances	18,197,161	14,880,406	3,105,900	1,934,510
	<u>66,663,981</u>	<u>65,917,298</u>	<u>30,453,789</u>	<u>26,934,405</u>
Total assets	<u>87,417,895</u>	<u>86,164,560</u>	<u>42,354,865</u>	<u>38,898,065</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	(3,755,836)	(3,852,217)	-	-
Retained earnings	38,963,390	37,596,451	7,294,326	7,029,968
	<u>51,099,582</u>	<u>49,636,262</u>	<u>23,186,354</u>	<u>22,921,996</u>
Non-controlling interests	2,909,534	2,809,727	-	-
Total equity	<u>54,009,116</u>	<u>52,445,989</u>	<u>23,186,354</u>	<u>22,921,996</u>
Non-current liabilities				
Financial liabilities - lease liabilities	2,474,330	2,572,232	1,136,022	1,142,914
Borrowings	761,642	864,534	-	-
	<u>3,235,972</u>	<u>3,436,766</u>	<u>1,136,022</u>	<u>1,142,914</u>
Current liabilities				
Current income tax liabilities	266,953	241,614	206,732	91,000
Trade and other payables	12,404,741	12,142,014	6,624,592	5,554,639
Financial liabilities - lease liabilities	218,207	282,727	13,614	13,279
Borrowings	17,251,937	17,564,633	11,186,097	9,174,237
Financial liabilities at fair value through profit or loss	30,969	50,817	1,454	-
	<u>30,172,807</u>	<u>30,281,805</u>	<u>18,032,489</u>	<u>14,833,155</u>
Total liabilities	<u>33,408,779</u>	<u>33,718,571</u>	<u>19,168,511</u>	<u>15,976,069</u>
Total equity and liabilities	<u>87,417,895</u>	<u>86,164,560</u>	<u>42,354,865</u>	<u>38,898,065</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 2020		As at 31 December 2019	
Secured	Unsecured	Secured	Unsecured
S\$3,375,602	S\$13,876,335	S\$5,476,449	S\$12,088,184

Amount repayable after one year

As at 30 June 2020		As at 31 December 2019	
Secured	Unsecured	Secured	Unsecured
S\$761,642	-	S\$864,534	-

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. mortgage over 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 2020

	Unaudited For the half year ended 30 June 2020 S\$	Unaudited For the half year ended 30 June 2019 S\$
Cash flows from operating activities		
Net profit	2,819,454	2,015,556
Adjustments for:		
Depreciation of property, plant and equipment and investment property	441,617	430,951
Depreciation of right-of-use assets	184,815	185,826
Dividend income	(4,780)	(2,934)
Change in fair value of financial assets at fair value through profit or loss	(55,123)	(28,072)
Change in fair value of financial liabilities at fair value through profit or loss	31,880	12,989
Gain on disposal of property, plant and equipment	(17,391)	(4,806)
Share of profit of associated companies	(885,692)	(475,713)
Income tax expense	437,402	550,866
Interest income from banks	(96,328)	(88,265)
Finance costs	424,986	497,358
Operating cash flow before working capital changes	3,280,840	3,093,756
Change in operating assets and liabilities		
Trade and other receivables and other current assets	3,305,277	1,289,713
Inventories	(194,997)	(2,513,895)
Trade and other payables	(1,306,363)	(638,637)
Foreign exchange adjustment differences	(22,124)	(95,145)
Cash generated from operations	5,062,633	1,135,792
Income tax paid	(495,599)	(589,708)
Interest received	98,615	88,732
Net cash from operating activities	4,665,649	634,816
Cash flows from investing activities		
Dividends received from associated company and listed equity	257,421	373,384
Purchase of property, plant and equipment	(136,596)	(78,657)
Payments for construction-in-progress	(354,303)	-
Proceeds from sale of property, plant and equipment	17,391	9,582
Net cash (used in)/from investing activities	(216,087)	304,309
Cash flows from financing activities		
Dividends paid	-	(1,066,400)
Dividends paid by subsidiary to non-controlling shareholders	(76,854)	(89,874)
Repayments of long term bank loans	(359,864)	(407,461)
Proceeds from/(repayments of) bills payables	1,081,692	(195,156)
(Repayment of)/proceeds from short term bank loans	(1,330,374)	2,316,931
Lease liabilities paid	(232,735)	(231,089)
Interest paid	(394,873)	(413,786)
Net cash used in financing activities	(1,313,008)	(86,835)
Net increase in cash and cash equivalents	3,136,554	852,290
Cash and cash equivalents, statement of cash flow, beginning balance	14,880,406	12,199,484
Effects of exchange rate changes on cash and cash equivalents	62,888	(74,141)
Cash and cash equivalents, statement of cash flow, ending balance	18,079,848	12,977,633
Cash and cash equivalents comprised the followings:		
Cash and bank balances	18,197,161	13,062,741
Less: bank overdraft	(117,313)	(85,108)
	18,079,848	12,977,633

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.

STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2020

	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\$
The Group						
Current year :						
Opening balance at 1 January 2020	52,445,989	49,636,262	15,892,028	(3,852,217)	37,596,451	2,809,727
Total comprehensive income for the reporting period	2,972,981	2,796,320	-	96,381	2,699,939	176,661
Final dividend relating to 2019 payable on 20 July 2020	(1,333,000)	(1,333,000)	-	-	(1,333,000)	-
Final dividends paid to non-controlling interests	(76,854)	-	-	-	-	(76,854)
Closing balance at 30 June 2020	54,009,116	51,099,582	15,892,028	(3,755,836)	38,963,390	2,909,534
Previous year :						
Opening balance at 1 January 2019	49,939,684	47,158,558	15,892,028	(4,219,180)	35,485,710	2,781,126
Total comprehensive income for the reporting period	2,121,642	2,046,903	-	125,347	1,921,556	74,739
Final dividend relating to 2018 paid	(1,066,400)	(1,066,400)	-	-	(1,066,400)	-
Final dividends paid to non-controlling interests	(89,874)	-	-	-	-	(89,874)
Closing balance at 30 June 2019	50,905,052	48,139,061	15,892,028	(4,093,833)	36,340,866	2,765,991

<u>The Company</u>	Total equity S\$	Share capital S\$	Retained earnings S\$
Current year :			
Opening balance at 1 January 2020	22,921,996	15,892,028	7,029,968
Total comprehensive income for the reporting period	1,597,358	-	1,597,358
Final dividend relating to 2019 payable on 20 July 2020	(1,333,000)		(1,333,000)
Closing balance at 30 June 2020	<u>23,186,354</u>	<u>15,892,028</u>	<u>7,294,326</u>
Previous year :			
Opening balance at 1 January 2019	23,888,234	15,892,028	7,996,206
Total comprehensive income for the reporting period	1,111,069	-	1,111,069
Final dividend relating to 2018 paid	(1,066,400)	-	(1,066,400)
Closing balance at 30 June 2019	<u>23,932,903</u>	<u>15,892,028</u>	<u>8,040,875</u>

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, subdivision, consolidation, 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 reported on being 31 December 2019.

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 2020 and 30 June 2019.

There were no outstanding convertibles and subsidiary holdings as at the end of the financial periods ended 30 June 2020 and 30 June 2019.

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 2020 and 31 December 2019 was 133,300,000 shares.

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

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

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

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

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

The figures have not been audited or reviewed.

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

Not applicable.

3A. Where the latest financial statements are subject to an adverse opinion, qualified opinion or disclaimer of opinion:

- a) Updates on the efforts taken to resolve each outstanding audit issue.
- b) Confirmation from the Board that the impact of all outstanding audit issues on the financial statements have been adequately disclosed.

This is not required for any audit issue that is a material uncertainty relating to going concern. For the avoidance of doubt, if an issuer receives a modified opinion due to various factors (one of which relates to going concern), the updates and confirmation required above will only be applicable to the other factors excluding going concern issues.

Not applicable. The Group's latest audited financial statements for the financial year ended 31 December 2019 were not subject to an adverse opinion, qualified opinion or disclaimer of opinion.

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 2019.

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 2020, 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 new and revised SFRS(I) 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.

	Unaudited For the half year ended 30 June 2020	Unaudited For the half year ended 30 June 2019
Earnings per ordinary shares (in cents)		
a) Based on weighted average number of ordinary shares on issue	2.03	1.44
b) On a fully diluted basis	2.03	1.44
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>	
	Unaudited 30 June 2020	Audited 31 December 2019	Unaudited 30 June 2020	Audited 31 December 2019
Net asset value per ordinary share based on issued share capital (cents)	38.33	37.24	17.39	17.20
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 2019	H2 2019	H1 2020	Variance H1 2020 vs H2 2019		Variance H1 2020 vs H1 2019	
				Fav/(Unfav)	%	Fav/(Unfav)	%
Sales (S\$'mil)	55.8	58.0	52.0	(6.0)	(10.3%)	(3.8)	(6.7%)
Gross profit (S\$'mil)	14.1	14.1	13.2	(0.9)	(6.4%)	(0.9)	(6.2%)
Gross profit margin	25.2%	24.3%	25.4%	1.1% pts	na	0.2% pts	na
Total operating expenses and finance costs (S\$'mil)	12.2	12.7	11.9	0.8	6.5%	0.3	2.7%
Other income (S\$'000)	223	363	1,051	688	189.5%	828	371.0%
Share of profit of associated companies (S\$'000)	476	634	886	252	39.6%	410	86.2%
Profit before income tax (S\$'mil)	2.6	2.4	3.3	0.9	35.7%	0.7	26.9%
Net profit (S\$'mil)	2.0	2.0	2.8	0.8	43.4%	0.8	39.9%
Net profit margin	3.6%	3.4%	5.4%	2.0% pts	na	1.8% pts	na
EBITDA (S\$'mil)	3.6	3.4	4.2	0.8	22.6%	0.6	17.2%
EBITDA margin	6.4%	5.9%	8.1%	2.2% pts	na	1.7% pts	na
Earnings per share attributable to the equity holders of the Company (cents)	1.44	1.44	2.03	0.59	41.0%	0.59	41.0%
Annualised return on equity (ROE)	8.0%	7.7%	10.6%	2.9% pts	na	2.6% pts	na

na : not applicable

COVID-19 IMPACT : FIRST QUARTER FY 2020

Our China operation imports chemical products for sale in China as well as serves as a sourcing hub of products for Megachem and its subsidiaries.

The lockdown and quarantine in China following the emergence of COVID-19 stifled demand from customers in China and supply from China since production facilities were mostly closed. The impact was felt by us for a major part of the first quarter of 2020 ("Q1 2020"). Since early March 2020, business and production gradually resumed, leading to pent-up demand from some of our customers even as we faced logistical disruption in terms of longer delivery lead-time.

While our business in China was significantly impacted in Q1 2020, other market segments of the Group did not experience major impact. On the contrary, most of our other market segments experienced growth in sales. China sales constitute about 13% of our group's sales in the financial year ended 31 December 2019 while the rest are spread across over a wide spectrum of markets. Reflecting the resilience of our diversified business model, sales in Q1 2020 came in 3.4% marginally higher than the same period last year.

COVID-19 IMPACT : SECOND QUARTER FY 2020

As China's economic and business activities gradually return to normalcy, COVID-19 began to spread to other parts of the world.

Countries in which the Company operate imposed lockdown or restrictions on business operations. Given that chemicals are considered essential products by most of the countries in which we operate, we have been allowed so far to continue our operations in these countries with enhanced safe distancing measures adopted. However, for our customers who operate in industries which are classified as non-essential, our business to these customers have been affected. The business impact of this was more widely felt across most markets.

Nevertheless, the impact has been mitigated to some extent by our diversified industry coverage. Sales in the second quarter of 2020 ("Q2 2020") fell by 12.0% as compared to Q1 2020 and decreased by 16.1% vis-à-vis second quarter of 2019 ("Q2 2019").

For the first half of 2020 ("H1 2020"), sales declined by 10.3% and 6.7% as compared to second half of 2019 ("H2 2019") and first half of 2019 ("H1 2019") respectively whereas we managed to inch up our net profit before tax (excluding grant income) by about 2.8% and net profit (excluding grant income) by about 9.6% year-on-year.

During this period, we have taken proactive measures to build even stronger relationships with our suppliers and customers as well as to contain costs and manage our financial position with greater level of prudence.

Please refer to the following sections for a more detailed review of our performance for H1 2020.

8(a) PROFITABILITY ANALYSIS

8(a)(i) Sales

	H1 2019	H2 2019	H1 2020	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2020 vs H2 2019	%	H1 2020 vs H1 2019	%
ASEAN	36,561	37,002	33,161	(3,841)	(10.4)	(3,400)	(9.3)
North Asia	6,795	8,757	5,655	(3,102)	(35.4)	(1,140)	(16.8)
Europe	4,897	4,427	5,044	617	13.9	147	3.0
Middle East	3,367	3,135	3,456	321	10.3	89	2.7
South Asia	2,280	2,255	1,993	(262)	(11.6)	(287)	(12.6)
Australia	1,770	2,274	2,309	35	1.5	539	30.5
America	106	145	387	242	166.4	281	263.7
Africa	2	12	12	-	-	10	493.1
Total	55,778	58,007	52,017	(5,990)	(10.3)	(3,761)	(6.7)

Geographic Segment Sales Analysis

H1 2020 vs H2 2019

The impact of restrictions on business operations was strongly felt in our key markets, ASEAN and North Asia, which recorded lower sales in H1 2020 as compared to H2 2019. Sales to ASEAN markets fell by S\$3.8 million or 10.4% while sales to North Asia markets decreased by S\$3.1 million or 35.4%. Sales to South Asia market dipped by a smaller magnitude of \$0.3 million.

On the other hand, sales to Europe, the Middle East and America markets in H1 2020 recorded an increase in sales of S\$0.6 million, S\$0.3 million and S\$0.2 million respectively over H2 2019.

This resulted in an overall decrease of 10.3% in total sales to S\$52.0 million in H1 2020 vis-à-vis sales of S\$58.0 million in H2 2019.

H1 2020 vs H1 2019

As compared to H1 2019, total sales decreased by S\$3.8 million or 6.7%. Similar trends were noted across the various markets. Sales to ASEAN, North Asia and South Asia markets fell by S\$3.4 million or 9.3%, S\$1.1 million or 16.8% and S\$0.3 million or 12.6% respectively.

This was partly offset by higher sales in Europe, the Middle East, Australia and America markets in the range of S\$0.1 million and S\$0.5 million.

Business Activity Segment Sales Breakdown

	H1 2019	H2 2019	H1 2020	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2020 vs H2 2019	%	H1 2020 vs H1 2019	%
Distribution activity	54,103	55,935	50,454	(5,481)	(9.8)	(3,649)	(6.7)
Manufacturing activity	1,675	2,072	1,563	(509)	(24.5)	(112)	(6.7)
Total Sales	55,778	58,007	52,017	(5,990)	(10.3)	(3,761)	(6.7)

H1 2020 vs H2 2019

H1 2020 vs H1 2019

Both segments recorded lower sales in H1 2020 as compared to H2 2019 and H1 2019.

H1 2020 sales from distribution segments declined by S\$5.5 million or 9.8% and S\$3.6 million or 6.7% over H2 2019 and H1 2019 respectively.

Sales from the contract manufacturing segment fell by S\$0.5 million or 24.5% and S\$0.1 million or 6.7% vis-à-vis H2 2019 and H1 2019 respectively.

8(a)(ii) Gross profit

H1 2020 vs H2 2019

Gross profit margin for H1 2020 was higher by 1.1%-point as compared to H2 2019 as temporary chemical supply disruption allow us to capitalize on our stock holding to meet customer demands.

However, the improved gross profit margin was unable to compensate for the lower sales achieved in H1 2020. As a result, gross profit decreased by S\$0.9 million or 6.4% over H2 2019.

H1 2020 vs H1 2019

For the same reason as above, gross profit margin in most countries was higher in H1 2020 vis-à-vis H1 2019. However, we also recorded higher inventory write down of S\$441,000 in H1 2020 as compared to S\$12,000 in H1 2019. As such, profit margin for H1 2020 (25.4%) was relatively unchanged as compared to H1 2019 (25.2%).

Because of lower sales achieved in H1 2020, gross profit decreased by S\$0.9 million or 6.2% year-on-year.

8(a)(iii) Other income

	H1 2019	H2 2019	H1 2020	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2020 vs H2 2019	H1 2020 vs H2 2019	H1 2020 vs H1 2019	H1 2020 vs H1 2019
				S\$'000	%	S\$'000	%
Bad debt recovered	74	278	100	(178)	(64.1)	26	34.7
Change in fair value of financial assets at fair value through profit or loss							
- forward foreign exchange contracts	28	(23)	28	51	219.3	-	-
- listed equity security	-	-	27	27	NM	27	NM
Grant income	17	-	635	635	NM	618	NM
Gain on disposal of plant and equipment	5	2	17	15	922.4	12	261.9
Interest income	88	96	96	-	-	8	9.1
Net foreign exchange gain	-	-	134	134	NM	134	NM

NM : not meaningful

H1 2020 vs H2 2019

Other income in H1 2020 increased by S\$688,000 or almost tripled the amount recorded in H2 2019 mainly due to higher grant income of S\$635,000 which was mostly government grant to support business during this pandemic crisis.

In H1 2020, we also recorded net foreign exchange gain of S\$134,000 (as opposed to net foreign exchange loss in H2 2019), fair value gain from listed equity security of S\$27,000 (as opposed to fair value loss of S\$118,000 in H2 2019) and fair value gain from forward exchange contracts in H1 2020 vis-à-vis a reduction in fair value gain from forward exchange contracts recorded in H2 2019.

However, the increase was partly offset by lower bad debt recovered of S\$178,000.

H1 2020 vs H1 2019

Similarly, other income was higher by S\$828,000 or 371.0% year-on-year mainly due to higher grant income of S\$618,000, net foreign exchange gain of S\$134,000 (as opposed to net foreign exchange loss in H1 2019), fair value gain from listed equity security of S\$27,000 and higher bad debt recovered of S\$26,000.

8(a)(iv) Operating expenses

	H1 2019	H2 2019	H1 2020	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2020 vs H2 2019	%	H1 2020 vs H1 2019	%
Advertising and entertainment	130	132	70	62	46.7	60	45.8
Change in fair value of financial assets at fair value through profit or loss - listed equity security	-	118	-	118	100.0	-	-
Impairment of trade receivables	82	14	54	(40)	(284.8)	28	34.3
Net foreign exchange loss	23	83	-	83	100.0	23	100.0
Professional fees	271	414	308	106	25.5	(37)	(13.9)
Travelling and transport	435	465	247	218	47.0	188	43.2
Rental	72	96	87	9	9.4	(15)	(20.8)
Warehouse storage charges	1,258	1,328	1,273	55	4.1	(15)	(1.2)

H1 2020 vs H2 2019

Total operating expenses for H1 2020 decreased by S\$0.7 million or 6.0% to S\$11.5 million as compared to S\$12.2 million for H2 2019.

The main reasons contributing to the decrease were:

- (i) lower travelling and transport expenses of S\$0.2 million;
- (ii) lower professional fees S\$0.1 million;
- (iii) absence of fair value loss of listed equity of S\$0.1 million;
- (iv) absence of net foreign exchange loss of S\$0.1 million; and
- (v) lower advertising and entertainment, rental expenses and storage charges totalled \$0.1mil.

H1 2020 vs H1 2019

Lower travelling and transport expenses of S\$0.2 million was the main reason that led to the decrease in total operating expenses of S\$254,000 or 2.2% year-on-year.

Other cost savings include lower advertising and entertainment expenses, lower impairment of trade receivables and absence of net foreign exchange loss.

The decrease was partially offset by higher professional fees related to the recoverability of bad debts.

8(a)(v) Finance costs

Finance costs comprised the following:-

	H1 2019	H2 2019	H1 2020	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2020 vs H2 2019	%	H1 2020 vs H1 2019	%
Bills payables	272	201	163	38	19.0	109	40.3
Bank loans	153	247	192	55	22.3	(39)	(25.8)
Leases for right-of-use assets	72	71	70	1	0.9	2	2.6
Total finance costs	497	519	425	94	18.1	72	14.6

H1 2020 vs H2 2019
H1 2020 vs H1 2019

Finance costs for H1 2020 decreased by S\$94,000 or 18.1% and S\$72,000 or 14.6% respectively over H2 2019 and H1 2019 due to falling interest rates and a marginal decrease in borrowings.

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

H1 2020 vs H2 2019
H1 2020 vs H1 2019

As distribution of cleaning chemicals was the key business of one of the associated companies, the increase in demand for cleaning chemicals boosted the performance of our associated companies.

As a result, our share of profit of associated companies in H1 2020 increased by S\$251,000 or 39.6% and \$410,000 or 86.2% respectively as compared to H2 2019 and H1 2019.

8(a)(vii) Profit before income tax and net profit

H1 2020 vs H2 2019

Although gross profit was lower by S\$0.9 million, the impact was offset by higher other income of S\$0.7 million, higher share of profits of associated companies of S\$251,000 and lower total operating expenses and finance costs of S\$0.8 million.

This resulted in an increase in profit before tax and net profit by S\$0.9 million or 35.7% and S\$0.8 million or 43.4% respectively vis-à-vis H2 2019. Correspondingly, H1 2020 EBITDA of S\$4.2 million was higher by S\$0.8 million or 22.6% over H2 2019.

Excluding grant income, profit before tax and net profit would have increased by S\$0.2 million or approximately 9.2%.

H1 2020 vs H1 2019

Similarly, profit before tax and net profit increased by S\$0.7 million or 26.9% and S\$0.8 million or 39.9% respectively as compared to H1 2019. Similarly, EBITDA increased by S\$0.6 million or 17.2%.

This was mainly due to higher other income of S\$0.8 million, higher share of profits of associated companies of S\$0.4 million and lower total operating expenses and finance costs of S\$0.3 million which compensated for the lower gross profit of S\$0.9 million.

Excluding grant income, profit before tax would be marginally higher by S\$72,000 or 2.8% and net profit would have increased by S\$0.2 million or 9.6%.

8(a)(viii) Total comprehensive income

Translation gain recorded for H1 2020 of S\$0.2 million was largely due to the appreciation of United States Dollar against Singapore Dollar while the translation gains recorded for H2 2019 and H1 2019 of S\$0.2 million and S\$0.1 million respectively were largely due to the appreciation of Thai Baht against Singapore Dollar.

H1 2020 vs H2 2019

As translation gain for H1 2020 and H2 2019 was relatively unchanged, comprehensive income for H1 2020 increased by S\$0.8 million or 34.7% to S\$3.0 million as compared to H2 2019.

H1 2020 vs H1 2019

Year-on-year, comprehensive income for H1 2020 increased by S\$0.9 million or 40.1% due to S\$0.1 million higher translation gain recorded in H1 2020.

8(b) BALANCE SHEET ANALYSIS

Balance Sheet Highlights	As at		Variance 30 June 2020 vs 31 December 2019 Fav/(Unfav)
	31 December 2019	30 June 2020	
Cash (S\$'mil)	14.9	18.2	3.3
Borrowings (S\$'mil)	18.4	18.0	0.4
Current ratio (times)	2.2	2.2	-
Gearing ratio (times)	0.37	0.35	0.02
Net assets per share attributable to equity holders of the Company (cents)	37.24	38.33	1.09
Inventory turnover (days)	124	137	(13)
Trade receivables turnover (days)	75	74	1
Trade payable turnover (days)	30	31	1

Property, plant and equipment

There was no significant change in the carrying value of property, plant and equipment as at 30 June 2020 and 31 December 2019. The decrease in carry value was mainly due to depreciation charge of S\$0.4 million in the current period offset by capital expenditure of S\$0.1 million.

Construction-in-progress

The carrying value of S\$0.4 million related to expenditure for the construction of office cum warehouse industrial building in Klang, Selangor, Malaysia.

Right-of-use assets

The carrying value of right-of-use assets decreased by S\$0.2 million from S\$2.8 million as at 31 December 2019 to S\$2.6 million as at 30 June 2020 mainly due to depreciation charge of S\$0.2 million in the current period.

Investment in associated companies

The carrying value of our associated companies increased by S\$0.7 million or 10.0% from S\$6.6 million as at 31 December 2019 to S\$7.3 million as at 30 June 2020 as a result of positive contribution from operation for the current period of S\$0.9 offset by dividend return of S\$0.3 million.

Deferred tax assets

There was no significant change in the carrying value of deferred tax assets as at 30 June 2020 and 31 December 2019.

Trade and other receivables

Net third party trade receivables decreased by S\$2.3 million or 6.0% from S\$21.6 million as at 31 December 2019 to S\$19.3 million as at 30 June 2020. The reduction was because of slower sales in H1 2020 as compared to H2 2019.

On the other hand, turnover days remained relatively stable at 74 days as compared to 75 days for the full year of 2019.

Inventories

Inventories increased marginally by S\$0.4 million or 1.7% from S\$25.4 million as at 31 December 2019 to S\$25.8 million as at 30 June 2020. The built up of inventory balance was mainly due to the slower sales in H1 2020. Hence, inventory turnover days increased to 137 days as compared to 124 days for the full year of 2019.

Other current assets

The decrease in other current assets of S\$0.4 million to S\$2.1 million as at 30 June 2020 was primarily due to lower advance payments to vendors as purchases fell in H1 2020.

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

The increase in the carrying value of financial assets at fair value through profit or loss of S\$49,000 to S\$277,000 was mainly due to favorable forward contracts as well as fair value gain from listed equity of S\$27,000 recorded in H1 2020.

Financial liabilities at fair value through profit or loss were not significant as at 30 June 2020 and 31 December 2019.

Trade and other payables

In line with lower purchases, total trade payables decreased by S\$1.0 million or 15.1% from S\$6.9 million as at 31 December 2019 to S\$5.9 million as at 30 June 2020. Turnover days remained relatively stable at 31 days as compared to 30 days for the full year of 2019.

Other payables in aggregate consisting of accrued operating expenses, advance payments from customer and sundry payables increased from S\$5.2 million as at 31 December 2019 to S\$6.5 million as at 30 June 2020 mainly due to S\$1.3 million dividend payable approved at the annual general meeting held on 25 June 2020.

Financial liabilities - lease liabilities

The decrease in lease liabilities from \$2.9 million as at 31 December 2019 to S\$2.7 million as at 30 June 2020 was mainly due to repayment of lease liabilities of S\$0.2 million offset by the accretion of interest of \$70,000 in H1 2020.

Borrowings

Total borrowings decreased marginally by S\$0.4 million or 2.3% from S\$18.4 million as at 31 December 2019 to S\$18.0 million as at 30 June 2020 mainly due to the repayment of short term bank loans.

In line with lower total borrowings, our gearing ratio decreased marginally from 0.37 times as at 31 December 2019 to 0.35 times as at 30 June 2020.

Net asset value

Net asset value per share increased from 37.24 cents as at 31 December 2019 to 38.33 cents as at 30 June 2020 primarily due to total comprehensive income recorded for equity holders for the current period of S\$2.8 million less dividend approved at the annual general meeting held on 25 June 2020 of S\$1.3 million.

8(c) CASH FLOW

As a result of positive net profit after tax and lower inventory purchases, positive cash flows from operating activities of S\$4.7 million were generated. This was partially utilized to reduce borrowings and to meet other financing obligations and capital expenditure.

With the strong cash generated from operating activities, overall cash and cash equivalents increased by S\$3.2 million from S\$14.9 million as at 31 December 2019 to S\$18.1 million as at 30 June 2020.

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 or prospect statement 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 2020 ("H2 2020") are as follows:

Global economy

The emergence of COVID-19 resulted in trade and production activities being curtailed as government implemented measures to contain the spread of the virus. Supply chain was disrupted and international travels came to a near standstill as borders were mostly closed. Business sentiment suffered and consumer spending shrank. In addition, political tension has been rising between the 2 major economic powers of the world, straining trade relations. These factors threaten to push global economy to one of its worst recession. Inevitably, the impact will be deeply felt in the chemical industry.

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

Lower energy prices, caused by lower demand, may affect chemical prices, hence putting downward pressure on our sales revenue.

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 recognise 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. Although market interest rates have been falling, any rise in interest rates in the future will increase our borrowing cost.

Credit risk

Our products are sold to more than 2,000 customers across many countries. Although there is no significant concentration of credit risk, the credit risks in some countries are more difficult to assess. Some customers may face financial stress caused by the economic recession. Any significant payment default will negatively impact our financial performance.

Country risk

Our products are sourced and sold globally. Our business may be affected if any of our markets suffer 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.

Liquidity risk

The emergence of COVID-19 has also led to banks taking a more prudent stance in its lending activities. This can put further strain on companies which are heavily reliant on bank borrowings. Notwithstanding the fact that we have banks providing us financing, our low gearing and sound liquidity put us in a healthy financial position. Hence, our banks have remained very supportive even during this health and economic crisis.

PROSPECTS

Easing of COVID-19 lockdown restrictions may result in pent-up consumer spending and recovery in business activities. Stimulus measures undertaken by central banks may also keep the global business sentiment supported. Positive signs of economic recovery seems to be emerging even amid a resurgence of COVID-19 infection. However, economic risks persist and political uncertainty is rising. Thus, even if economies recover in H2 2020, it will not immediately return to pre-COVID levels.

With the pandemic and global economy remaining in a state of uncertainty and flux, we foresee any recovery in our business is likely to be gradual and uneven. Hence we will tread cautiously as we navigate through these unprecedented challenges. We will continue to take proactive measures to build even stronger relationships with suppliers and customers as well as to contain cost and manage our financial position with greater level of prudence.

11. Dividend

(a) Current financial year 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 2020 as follows:

FY 2020

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 2019? 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 2020 will be paid on 30 October 2020.

(d) Record date

The Share Transfer Books and Register of Members of the Company will be closed on 9 October 2020 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 8 October 2020 (the "Record Date") will be registered to determine member's entitlements to the proposed dividend.

Members (being depositors) whose securities account with The Central Depository (Pte) Limited are credited with ordinary shares as at Record Date 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 30 October 2020.

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 2020 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 2020 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	Nil (Note 1)	Nil (Note 1)
Sales of products to Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations	Nil (Note 2)	Nil (Note 2)
Purchase of products from Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations	Nil (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)

Note 1 : The Group did not engage the services of Ipem Automation Sdn. Bhd during the financial period ended 30 June 2020. 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. Shareholders' mandate was obtained for these interested person transactions.

Note 3 : The Group did not purchase from Chori Co., Ltd and its related corporations. Shareholders' mandate was obtained for these interested person transactions.

Note 4 : The Group entered into purchase transactions amounting to S\$48,923 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.

13. Undertaking from directors and executive officers in pursuant to Catalyst 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.

14. Disclosures on Acquisitions and Realisation of Shares pursuant to Catalyst Rule 706A

There were no acquisitions or realization of shares nor incorporation of any new subsidiary or associated company by the Company or any of the Group entities during H1 2020.



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 2020 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

13 August 2020