



MEGACHEM LIMITED

Un-audited Financial Statements and Dividend Announcement

For The Full Year Ended
31 December 2017

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

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

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UNAUDITED RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2017

The directors of Megachem Limited are pleased to advise the following unaudited results of the Group for the full year ended 31 December 2017.

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 2017

	For the full year ended 31 December 2017 S\$	For the full year ended 31 December 2016 S\$	Variance Favourable/(Unfavourable) S\$'000 %	
Revenue	108,102,074	99,762,948	8,339	8.4%
Cost of sales	(81,493,638)	(74,494,752)	(6,999)	(9.4%)
Gross profit	26,608,436	25,268,196	1,340	5.3%
Other income	2,546,480	732,087	1,814	247.8%
Distribution costs	(15,761,993)	(14,601,434)	(1,161)	(7.9%)
Administrative expenses	(5,053,764)	(5,004,889)	(49)	(1.0%)
Other operating expenses	(3,416,780)	(2,749,118)	(668)	(24.3%)
Finance costs	(532,689)	(559,859)	27	4.9%
Share of profit of associated companies	818,338	559,402	259	46.3%
Profit before income tax	5,208,028	3,644,385	1,564	42.9%
Income tax expense	(1,012,840)	(1,414,375)	402	28.4%
Net profit	4,195,188	2,230,010	1,965	88.1%
Other comprehensive income:				
Exchange differences on translating foreign operations, net of tax	(116,405)	(710,574)	594	83.6%
Total comprehensive income	4,078,783	1,519,436	2,559	168.4%
Net profit/(loss) attributable to:				
Equity holders of the Company	4,242,508	2,040,876	2,202	107.9%
Non-controlling interests	(47,320)	189,134	(236)	(125.0%)
Net profit	4,195,188	2,230,010	1,965	88.1%
Total comprehensive income/(loss) attributable to:				
Equity holders of the Company	4,226,281	1,390,519	2,836	203.9%
Non-controlling interests	(147,498)	128,917	(276)	(214.4%)
Total comprehensive income	4,078,783	1,519,436	2,559	168.4%
Earnings per share of profit attributable to equity holders of the Company during the financial year				
- basic and diluted	3.18 cents	1.53 cents	1.65	107.8%

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

	For the full year ended 31 December 2017 S\$	For the full year ended 31 December 2016 S\$
<u>Other income</u>		
Bad debt recovered	82,149	89,230
Change in fair value of financial assets at fair value through profit or loss	431,516	111,061
Dividend income	2,123	1,524
Gain on disposal of property, plant and equipment	32,307	39,918
Gain on dilution of interests in associated companies	1,839,187	-
Grant income	45,316	133,651
Interest income from banks	100,228	80,878
Net foreign exchange gain	-	260,034
Rental income	13,654	15,791
	2,546,480	732,087
Change in fair value of financial assets at fair value through profit or loss		
- forward foreign exchange contracts	1,516	71,061
- listed equity security	430,000	40,000
Change in fair value of financial liabilities at fair value through profit or loss		
- forward foreign exchange contracts	(16,575)	(18,127)
Depreciation and amortisation	(1,168,064)	(1,459,548)
Interest on borrowings	(532,689)	(559,859)
Impairment of trade receivables	(1,381,715)	(1,035,640)
Net foreign exchange (loss)/gain	(824,549)	260,034
Write down of inventory	(863,525)	(590,135)
Adjustment for over provision for tax in respect of prior reporting years	73,830	5,518
Gain on disposal of property plant and equipment	32,307	39,918

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 31 DECEMBER 2017

	<u>Group</u>		<u>Company</u>	
	31 December	31 December	31 December	31 December
	2017	2016	2017	2016
	S\$	S\$	S\$	S\$
ASSETS				
Non-current assets				
Property, plant and equipment	10,856,528	11,425,745	1,596,963	1,668,712
Investment property	82,054	83,387	-	-
Investments in subsidiaries	-	-	5,284,379	5,084,379
Investments in associated companies	5,521,196	3,126,186	2,798,756	2,798,756
Transferable club memberships	26,952	26,476	4,001	4,001
Deferred tax assets	268,282	-	-	-
	<u>16,755,012</u>	<u>14,661,794</u>	<u>9,684,099</u>	<u>9,555,848</u>
Current assets				
Inventories	23,914,744	20,368,700	10,763,479	10,046,724
Trade and other receivables	27,661,192	24,233,154	18,329,223	16,147,339
Financial assets at fair value through profit or loss	581,533	216,919	580,000	150,000
Other current assets	1,647,396	2,168,578	341,079	368,184
Cash and bank balances	9,344,937	11,560,037	1,795,013	3,291,107
	<u>63,149,802</u>	<u>58,547,388</u>	<u>31,808,794</u>	<u>30,003,354</u>
Total assets	<u>79,904,814</u>	<u>73,209,182</u>	<u>41,492,893</u>	<u>39,559,202</u>
EQUITY AND LIABILITIES				
Capital and reserves attributable to equity holders of the Company				
Share capital	15,892,028	15,892,028	15,892,028	15,892,028
Other reserves	(4,548,918)	(4,532,691)	-	-
Retained earnings	33,272,085	30,629,177	8,945,335	8,809,402
	<u>44,615,195</u>	<u>41,988,514</u>	<u>24,837,363</u>	<u>24,701,430</u>
Non-controlling interests	<u>2,578,806</u>	<u>2,808,655</u>	<u>-</u>	<u>-</u>
Total equity	<u>47,194,001</u>	<u>44,797,169</u>	<u>24,837,363</u>	<u>24,701,430</u>
Non-current liabilities				
Borrowings	2,120,264	2,907,008	-	-
	<u>2,120,264</u>	<u>2,907,008</u>	<u>-</u>	<u>-</u>
Current liabilities				
Current income tax liabilities	431,885	62,923	178,114	-
Trade and other payables	15,580,433	13,006,569	6,832,284	6,863,060
Borrowings	14,561,469	12,418,443	9,645,132	7,994,712
Financial liabilities at fair value through profit or loss	16,762	17,070	-	-
	<u>30,590,549</u>	<u>25,505,005</u>	<u>16,655,530</u>	<u>14,857,772</u>
Total liabilities	<u>32,710,813</u>	<u>28,412,013</u>	<u>16,655,530</u>	<u>14,857,772</u>
Total equity and liabilities	<u>79,904,814</u>	<u>73,209,182</u>	<u>41,492,893</u>	<u>39,559,202</u>

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

Amount repayable in one year or less, or on demand

As at 31 December 2017		As at 31 December 2016	
Secured	Unsecured	Secured	Unsecured
S\$2,224,525	S\$12,336,944	S\$2,335,421	S\$10,083,022

Amount repayable after one year

As at 31 December 2017		As at 31 December 2016	
Secured	Unsecured	Secured	Unsecured
S\$2,120,264	-	S\$2,907,008	-

Details of collateral

The secured borrowings were collateralized on:

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

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE FULL YEAR ENDED 31 DECEMBER 2017

	For the full year ended 31 December 2017 S\$	For the full year ended 31 December 2016 S\$
Cash flows from operating activities		
Net profit	4,195,188	2,230,010
Adjustments for:		
Change in fair value of financial assets	(430,000)	(40,000)
Depreciation charge	1,168,064	1,459,548
Dividend income	(2,123)	(1,524)
Gain on disposal of property, plant and equipment	(32,307)	(39,918)
Gain on dilution of interests in associated companies	(1,839,187)	-
Share of profit of associated companies	(818,338)	(559,402)
Income tax expense	1,012,840	1,414,375
Interest income	(100,228)	(80,878)
Finance costs	532,689	559,859
Operating cash flow before working capital changes	3,686,598	4,942,070
Change in operating assets and liabilities		
Trade and other receivables and other current assets	(3,379,347)	(199,515)
Inventories	(3,940,359)	452,041
Financial assets at fair value through profit or loss	65,386	(34,733)
Trade and other payables	3,123,231	(360,707)
Financial liabilities at fair value through profit or loss	(308)	(33,525)
Foreign exchange adjustment differences	(50,440)	53,076
Cash (used in)/from operations	(495,239)	4,818,707
Income tax paid	(748,757)	(1,406,318)
Interest received	100,228	80,878
Net cash (used in)/from operating activities	(1,143,768)	3,493,267
Cash flows from investing activities		
Dividends received from associated company and listed equity security	358,044	5,426,676
Purchase of property, plant and equipment	(564,836)	(511,927)
Proceeds from sale of property, plant and equipment	33,885	40,920
Subscription for shares in associated company	-	(2,698,807)
Net cash (used in)/from investing activities	(172,907)	2,256,862
Cash flows from financing activities		
Dividends paid	(1,599,600)	(1,599,600)
Dividends paid by subsidiary to non-controlling shareholders	(82,351)	(208,314)
Repayments of long term bank loans	(770,590)	(724,037)
Proceeds from bills payables	2,476,027	62,786
Repayments of short term bank loans	(301,213)	(2,136,507)
Refunds of prior year unclaimed dividends	-	1,831
Interest paid	(523,937)	(578,100)
Net cash used in financing activities	(801,664)	(5,181,941)
Net (decrease)/increase in cash and cash equivalents held	(2,118,339)	568,188
Cash and cash equivalents, statement of cash flow, beginning balance	11,527,426	11,059,729
Effects of exchange rate changes on cash and cash equivalents	(64,150)	(100,491)
Cash and cash equivalents, statement of cash flow, ending balance	9,344,937	11,527,426

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 FULL YEAR ENDED 31 DECEMBER 2017

	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\$
<u>The Group</u>						
Curent year :						
Opening balance at 1 January 2017	44,797,169	41,988,514	15,892,028	(4,532,691)	30,629,177	2,808,655
Total comprehensive income for the reporting year	4,078,783	4,226,281	-	(16,227)	4,242,508	(147,498)
Final dividend relating to 2016 paid	(933,100)	(933,100)	-	-	(933,100)	-
Interim dividend relating to 2017 paid	(666,500)	(666,500)	-	-	(666,500)	-
Final dividend paid to non- controlling interests	(82,351)	-	-	-	-	(82,351)
Closing balance at 31 December 2017	47,194,001	44,615,195	15,892,028	(4,548,918)	33,272,085	2,578,806
Previous year :						
Opening balance at 1 January 2016	45,083,816	42,195,764	15,892,028	(3,882,334)	30,186,070	2,888,052
Total comprehensive income for the reporting year	1,519,436	1,390,519	-	(650,357)	2,040,876	128,917
Final dividend relating to 2015 paid	(933,100)	(933,100)	-	-	(933,100)	-
Interim dividend relating to 2016 paid	(666,500)	(666,500)	-	-	(666,500)	-
Prior years unclaimed dividends refunded	1,831	1,831	-	-	1,831	-
Final dividend paid to non- controlling interests	(208,314)	-	-	-	-	(208,314)
Closing balance at 31 December 2016	44,797,169	41,988,514	15,892,028	(4,532,691)	30,629,177	2,808,655

<u>The Company</u>	Total equity S\$	Share capital S\$	Retained earnings S\$
Curent year :			
Opening balance at 1 January 2017	24,701,430	15,892,028	8,809,402
Total comprehensive income for the reporting year	1,735,533	-	1,735,533
Final dividend relating to 2016 paid	(933,100)	-	(933,100)
Interim dividend relating to 2017 paid	(666,500)	-	(666,500)
Closing balance at 31 December 2017	24,837,363	15,892,028	8,945,335
Previous year :			
Opening balance at 1 January 2016	20,689,160	15,892,028	4,797,132
Total comprehensive income for the reporting year	5,610,039	-	5,610,039
Final dividend relating to 2015 paid	(933,100)	-	(933,100)
Interim dividend relating to 2016 paid	(666,500)	-	(666,500)
Prior years unclaimed dividends refunded	1,831	-	1,831
Closing balance at 31 December 2016	24,701,430	15,892,028	8,809,402

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

There have been no changes in the Company's issued share capital since the end of the previous financial period reported on being 30 June 2017.

There were no unissued shares in the capital of the Company reserved for the exercise of any option nor were there any treasury shares as at the end of the financial years ended 31 December 2017 and 31 December 2016.

There were no outstanding convertibles and subsidiary holdings as at the end of the financial years ended 31 December 2017 and 31 December 2016.

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

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

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

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

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

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

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

The figures have not been audited or reviewed.

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

Not applicable.

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

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

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

On 1 January 2017, the Group adopted the new and revised Financial Reporting Standards ("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 2017	For the full year ended 31 December 2016
Earnings per ordinary shares (in cents)		
a) Based on weighted average number of ordinary shares on issue	3.18	1.53
b) On a fully diluted basis	3.18	1.53
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 2017	31 December 2016	31 December 2017	31 December 2016
Net asset value per ordinary share based on issued share capital (cents)	33.47	31.50	18.63	18.53
No of ordinary shares used in calculation	133,300,000	133,300,000	133,300,000	133,300,000

8. REVIEW OF PERFORMANCE

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

Profitability Highlights	H2 2016	H1 2017	H2 2017	Variance H2 2017 vs H1 2017		Variance H2 2017 vs H2 2016	
				Fav/(Unfav)	%	Fav/(Unfav)	%
Sales (S\$'mil)	48.5	51.4	56.7	5.3	10.3%	8.2	17.0%
Gross profit (S\$'mil)	12.4	12.5	14.1	1.7	13.5%	1.7	13.7%
Gross profit margin	25.7%	24.2%	25.0%	0.8% pts	na	(0.7% pts)	na
Total operating expenses and finance costs (S\$'mil)	11.3	12.6	12.1	0.5	4.1%	(0.8)	(7.3%)
Other income (S\$'000)	424	2,108	438	(1,670)	(79.2%)	14	3.4%
Share of profit of associated companies (S\$'000)	279	406	412	6	1.4%	133	47.8%
Net profit before tax (S\$'mil)	1.8	2.3	2.9	0.5	22.7%	1.0	56.3%
Net profit after tax (S\$'mil)	1.3	2.2	2.0	(0.2)	(9.4%)	0.7	52.3%
Net profit after tax margin	2.7%	4.3%	3.5%	(0.8% pts)	na	0.8% pts	na
EBITDA (S\$'mil)	2.8	3.2	3.6	0.4	11.9%	0.8	29.2%
EBITDA margin	5.7%	6.2%	6.3%	0.1% pts	na	0.6% pts	na
Earnings per share attributable to the equity holders of the Company (cents)	0.94	1.70	1.48	(0.22)	(12.9%)	0.54	57.4%
Annualised return on equity (ROE)	6.0%	10.5%	8.9%	(1.6% pts)	na	2.9% pts	na

Profitability Highlights	FY 2016	FY 2017	Variance FY 2017 vs FY 2016	
			Fav/(Unfav)	%
Sales (S\$'mil)	99.8	108.1	8.3	8.4%
Gross profit (S\$'mil)	25.3	26.6	1.3	5.3%
Gross profit margin	25.3%	24.6%	(0.7% pts)	na
Total operating expenses and finance cost (S\$'mil)	22.9	24.8	(1.9)	(8.1%)
Other income (S\$'000)	732	2,546	1,814	247.8%
Share of profit of associated companies (S\$'000)	559	818	259	46.3%
Net profit before tax (S\$'mil)	3.6	5.2	1.6	42.9%
Net profit after tax (S\$'mil)	2.2	4.2	2.0	88.1%
Net profit after tax margin	2.2%	3.9%	1.7% pts	na
EBITDA (S\$'mil)	5.6	6.8	1.2	22.0%
EBITDA margin	5.6%	6.3%	0.7% pts	na
Earnings per share attributable to the equity holders of the Company (cents)	1.53	3.18	1.65	107.8%
Annualised return on equity (ROE)	4.9%	9.5%	4.6% pts	na

na : not applicable

8(a) PROFITABILITY ANALYSIS

8(a)(i) Sales

	H2 2016	H1 2017	H2 2017	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H2 2017 vs H1 2017	%	H2 2017 vs H2 2016	%
ASEAN	31,780	35,151	37,855	2,704	7.7	6,075	19.1
North Asia	6,247	5,342	6,519	1,177	22.0	272	4.4
Europe	2,896	3,106	3,770	664	21.4	874	30.2
Middle East	2,082	2,810	2,986	176	6.3	904	43.4
South Asia	2,753	2,444	2,567	123	5.0	(186)	(6.8)
Australia	2,301	2,259	2,685	426	18.8	384	16.7
America	405	276	307	31	11.6	(98)	(24.0)
Africa	4	25	-	(25)	(100.0)	(4)	(100.0)
Total	48,468	51,413	56,689	5,276	10.3	8,221	17.0

	FY 2016		FY 2017		Variance Fav/(Unfav)	
	S\$'000	%	S\$'000	%	S\$'000	%
ASEAN	66,273	66.4	73,006	67.5	6,733	10.2
North Asia	13,283	13.3	11,861	11.0	(1,422)	(10.7)
Europe	5,974	6.0	6,876	6.4	902	15.1
South Asia	5,498	5.5	5,011	4.6	(487)	(8.9)
Middle East	4,027	4.0	5,796	5.4	1,769	43.9
Australia	3,669	3.7	4,944	4.6	1,275	34.8
America	1,028	1.0	583	0.5	(445)	(43.3)
Africa	11	-	25	-	14	127.2
Total	99,763	100.0	108,102	100.0	8,339	8.4

Geographic Segment Sales Analysis

H2 2017 vs H1 2017

The pickup in growth in the second half of 2017 ("H2 2017") had been broad based, with notable strong growth in sales from our two biggest markets, ASEAN and North Asia, which grew by S\$2.7 million or 7.7% and S\$1.2 million or 22.0% respectively as compared to the first half of 2017 ("H1 2017"). Sales to other markets such as Europe and Australia also increased by 21.4% and 18.8% respectively.

As a result, overall sales improved by S\$5.3 million or 10.3% vis-à-vis H1 2017.

H2 2017 vs H2 2016

Similarly, as compared to the second half of 2016 ("H2 2016"), the increase in sales of S\$8.2 million or 17.0% was led by commendable growth from ASEAN, Europe, Middle East and Australia markets. On the other hand, South Asia and America markets recorded lower sales mainly due to demand being affected by demonetization as well as change in tax policy in India and economic instability in South America.

FY 2017 vs FY 2016

Sales for the full year of 2017 ("FY 2017") increased by S\$8.3 million or 8.4% to S\$108.1 million as compared to full year of 2016 ("FY 2016") mainly because of a modest upturn in the global economy. Year-on-year, ASEAN and Europe grew by S\$6.7 million or 10.2% and S\$0.9 million or 15.1% respectively.

Our efforts to grow Australia and Middle East markets led to sales growth of 34.8% and 43.9% respectively.

This was partially dampened by lower sales to North Asia, which was attributed to reduced demand from certain customers, as well as in South Asia and America markets. The decrease in sales in South Asia and America markets were explained above.

Business Activity Segment Sales Breakdown

	H2 2016	H1 2017	H2 2017	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H2 2017 vs H1 2017	%	H2 2017 vs H2 2016	%
Distribution activity	46,642	50,193	55,273	5,080	10.1	8,631	18.5
Manufacturing activity	1,826	1,220	1,416	196	16.2	(410)	(22.4)
Total Sales	48,468	51,413	56,689	5,276	10.3	8,221	17.0

	FY 2016	FY 2017	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Distribution activity	96,278	105,466	9,188	9.5
Manufacturing activity	3,485	2,636	(849)	(24.4)
Total Sales	99,763	108,102	8,339	8.4

H2 2017 vs H1 2017

H2 2017 vs H2 2016

Sales from distribution segment grew steadily by S\$5.1 million over H1 2017 and S\$8.6 million over H2 2016 and was the main contributor to the improved total sales in H2 2017.

Sales from contract manufacturing in H2 2017 pick up moderately by S\$0.2 million or 16.2% vs-à-vis H1 2017 but was lower by S\$0.4 million or 22.4% as compared to H2 2016 primarily because of reduced demand from customers.

FY 2017 vs FY 2016

Year-on-year, sales from distribution segment increased by S\$9.2 million or 9.5% due to a modest upturn in market conditions while sales from manufacturing segment decreased by S\$0.8 million or 24.4%.

8(a)(ii) Gross profit

H2 2017 vs H1 2017

H2 2017 vs H2 2016

Gross profit margin for H2 2017 increased by 0.8%-point as compared to H1 2017. This was mainly due to lower inventory write down and lower manufacturing overheads.

Vis-à-vis H2 2016, gross profit margin fell by 0.7%-point primarily due to the recording of lower gross profit margins across major markets such as ASEAN, North Asia and Europe and lower sales from manufacturing activities.

As a result of higher sales achieved in H2 2017, gross profit increased by 13.5% and 13.7% respectively as compared to both H1 2017 and H2 2016.

FY 2017 vs FY 2016

Gross profit margin for FY 2017 fell by 0.7%-point over FY 2016. This was mainly due to the recording of lower gross profit margins across major markets such as ASEAN, North Asia and Europe and partly because of higher inventory write down in the current year and the decrease in sales from manufacturing activities.

8(a)(iii) Other income

	H2 2016	H1 2017	H2 2017	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H2 2017 vs H1 2017	%	H2 2017 vs H2 2016	%
Bad debt recovered	43	65	17	(48)	(73.3)	(26)	(59.7)
Change in fair value of financial assets at fair value through profit or loss							
- forward foreign exchange contracts	3	19	(17)	(36)	(191.9)	(21)	(628.7)
- listed equity security	5	70	360	290	414.3	355	NM
Grant income	58	31	14	(17)	(54.1)	(43)	(75.2)
Gain on disposal of plant and equipment	(1)	22	10	(12)	(53.0)	11	NM
Gain on dilution of interests in associated companies	-	1,839	-	(1,839)	(100.0)	-	-
Net foreign exchange gain	260	-	-	-	-	(260)	(100.0)

	FY 2016	FY 2017	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Change in fair value of financial assets at fair value through profit or loss				
- forward foreign exchange contracts	71	2	(70)	(97.9)
- listed equity security	40	430	390	975.0
Gain on dilution of interests in associated companies	-	1,839	1,839	100.0
Grant income	134	45	(88)	(66.1)
Net foreign exchange gain	260	-	(260)	(100.0)

NM : not meaningful

H2 2017 vs H1 2017

Other income in H2 2017 decreased by S\$1.7 million or 79.2% primarily due to a one-time valuation gain in H1 2017 of S\$1.8 million arising from the listing of our associated company in the stock exchange in Thailand.

This was partly offset by higher fair value gain in H2 2017 from investment in listed equity of S\$290,000.

H2 2017 vs H2 2016

As compared to H2 2016, other income in aggregate was relatively unchanged as the lack of net foreign exchange gain, lower grant income and lower bad debt recovered was offset by higher fair value gain from listed equity.

FY 2017 vs FY 2016

Year-on-year, other income increased by S\$1.8 million to S\$2.5 million primarily due to a one-time valuation gain of S\$1.8 million arising from the listing of our associated company in the stock exchange in Thailand and higher fair value gain from listed equity of S\$0.4 million.

This was partially offset by lower grant income and fair value gain from forward foreign exchange contracts of S\$88,000 and S\$70,000 respectively. Net foreign exchange gain of S\$260,000 was recorded for FY 2016 as opposed to net foreign exchange loss of S\$825,000 for this year recorded under operating expenses in FY2017.

8(a)(iv) Operating expenses

H2 2017 vs H1 2017

H2 2017 vs H2 2016

	H2 2016	H1 2017	H2 2017	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H2 2017 vs H1 2017	%	H2 2017 vs H2 2016	%
Change in fair value of financial liabilities at fair value through profit or loss							
- forward foreign exchange contracts	(311)	43	(26)	69	161.3	(285)	(91.6)
Employee remuneration and related expenses	6,338	6,686	6,713	(27)	(0.4)	(375)	(5.9)
Impairment of trade receivables	651	1,255	127	1,128	89.9	524	80.4
Net foreign exchange (reversal)/loss	(59)	355	470	(115)	(32.4)	(529)	(896.9)
Professional fees	304	268	298	(30)	(11.4)	6	1.9
Travelling and transport	555	451	602	(151)	(33.4)	(47)	(8.5)
Rental	1,260	1,283	1,360	(77)	(6.0)	(100)	(7.9)

Lower allowance for impairment of trade receivables of S\$1.1 million as compared to H1 2017 was the main reason for the decrease in operating expenses in H2 2017. Impairment of trade receivables from Venezuela was mostly recognised in H1 2017 and H2 2016. There was no additional impairment recognised in H2 2017 for trade receivables from Venezuela.

However, the decrease was partially offset by (i) higher net foreign exchange loss of S\$0.1 million; (ii) higher travelling and transport expenses of S\$0.2 million and (iii) higher rental expenses of S\$0.1 million. As a result, overall operating expenses for H2 2017 fell by S\$0.6 million or 4.5% to S\$11.8 million as compared to H1 2017.

Excluding allowance for impairment of trade receivables from Venezuela, total operating expenses for H2 2017 would have increased by S\$0.6 million or 5.2%.

On the other hand, total operating expenses increased by S\$0.8 million or 7.3% vis-à-vis H2 2016. Although impairment of trade receivables was lower by S\$0.5 million, attributable to allowance for impairment of trade receivables from Venezuela in H2 2016, other expenses such staff costs, net foreign exchange loss and rental expenses increased by S\$1.0 million in totality. Furthermore, reversal of fair value loss from forward foreign exchange contracts was lower in H2 2017 by S\$0.3 million.

FY 2017 vs FY 2016

	FY 2016	FY 2017	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Employee remuneration and related expenses	12,763	13,399	(636)	(5.0)
Impairment of trade receivables	1,036	1,382	(346)	(33.4)
Net foreign exchange loss	-	825	(825)	(100.0)
Professional fees	680	566	114	16.7
Rental	2,486	2,643	(157)	(6.3)
Travelling and transport	952	1,053	(101)	(10.6)

As compared to FY 2016, operating expenses increased by S\$1.9 million or 8.4% to S\$24.2 million, out of which net foreign exchange loss and staff costs in aggregate accounted for S\$1.5 million of the increase.

The higher net foreign exchange loss of S\$0.8 million resulted mainly from the weakening of the United States ("US") Dollar against Singapore Dollar and British Pound in the current year and the 5.0% increase in staff costs or S\$0.6 million was in line with expansion in our staff strength.

Allowance for impairment of trade receivables increased by S\$0.3 million primarily for receivables from Venezuela as foreign currency controls imposed on payments remained unresolved in FY 2017.

The increase in rental expenses was in line with higher inventory holding during the year.

The increase in other costs such as travelling and transport of S\$0.1 million was partially offset by reduction in professional fees of S\$0.1 million for certain corporate-related consultancy fees.

Excluding allowance for impairment of trade receivables from Venezuela and net foreign exchange loss, operating expense would have been higher by S\$0.8 million or 3.6%.

8(a)(v) Finance costs

Finance costs comprised the following:-

	H2 2016	H1 2017	H2 2017	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H2 2017 vs H1 2017	%	H2 2017 vs H2 2016	%
Bills payables	126	130	172	(42)	(32.2)	(46)	(36.6)
Bank loans	142	115	116	(1)	(0.4)	26	18.7
Bank overdraft	1	-	-	-	-	1	100.0
Total finance costs	269	245	288	(43)	(17.3)	(19)	(6.8)

	FY 2016	FY 2017	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Bills payables	253	302	(49)	(19.6)
Bank loans	306	231	75	24.6
Bank overdraft	1	-	1	100.0
Total finance costs	560	533	27	4.9

H2 2017 vs H1 2017 H2 2017 vs H2 2016

As compared to H1 2017 and H2 2016, total finance costs increased by S\$43,000 and S\$19,000 respectively due to an increase in average trade borrowings to finance working capital requirements although finance costs from bank term loans declined following repayments made in H2 2017.

FY 2017 vs FY 2016

For same reasons noted above, overall finance costs decreased marginally by S\$27,000 or 4.9% year-on-year.

8(a)(vi) Share of profit of associated companiesH2 2017 vs H1 2017H2 2017 vs H2 2016

Share of profit of associated companies for H2 2017 was relatively flat as compared to H1 2017.

As compared to H2 2016, share of profit increased by S\$0.1 million or 47.8% because of higher sales and better gross profit margin.

FY 2017 vs FY 2016

In line with positive economic growth in Thailand in FY2017, share of profit of associated companies increased by S\$0.3 million or 46.3% over last year.

8(a)(vii) Profit before income taxH2 2017 vs H1 2017

Net profit before tax increased by S\$0.5 million or 22.7% to achieve S\$2.9 million in H2 2017. This was mainly due to higher gross profit of S\$1.7 million and lower operating expenses and finance costs of S\$0.5 million offset by lower other income of S\$1.7 million.

Excluding one-time valuation gain of S\$1.8 million arising from the listing of our associated company in the stock exchange in Thailand and S\$1.2 million allowance for impairment of trade receivables from Venezuela in H1 2017, net profit before tax of H2 2017 would have increased by S\$1.2 million or 70.3% instead.

H2 2017 vs H2 2016

Similarly, net profit before tax increased by S\$1.0 million or 56.3% as compared to H2 2016. Excluding allowance for impairment of trade receivables from Venezuela, net profit before tax would have increased by S\$0.4 million or 17.5%.

This was mainly due to higher gross profit of S\$1.7 million, higher fair value gain from listed equity of S\$0.4 million and higher share of profit of associated companies of S\$0.1 million.

However, the increase was partially offset by higher operating expenses of S\$1.4 million, which include an unfavourable variance in net foreign exchange loss and change in fair value of forward contracts of S\$0.8 million, and lower other income because of the lack of net foreign exchange gain of S\$0.3 million.

FY 2017 vs FY 2016

Net profit before tax increased by S\$1.6 million or 42.9% year-on-year due to one-time valuation gain arising from the listing of our associated company, higher gross profit, share of profit of associated companies and fair value gain from listed equity offset by higher operating expenses.

Excluding one-time valuation gain arising from the listing of our associated company and further adjusting for allowance for impairment of trade receivables from Venezuela, net profit before tax for FY 2017 would be relatively flat vis-à-vis last year.

Similarly, EBITDA also increased by S\$1.2 million or 22.0% year-on-year as compared to S\$5.6 million in FY 2016. However, excluding one-time valuation gain of S\$1.8 million arising from the listing of our associated company, EBITDA would have fallen by S\$0.6 million or 11.0%.

8(a)(viii) Net profitH2 2017 vs H1 2017H2 2017 vs H2 2016

Although net profit before tax increased by S\$0.5 million over H1 2017, income tax expense increased by S\$0.7 million. This resulted in a decline in net profit of S\$0.2 million or 9.4% as compared to H1 2017.

Corresponding to higher net profit before tax of S\$1.0 million, net profit increased by S\$0.7 million or 52.3% vis-à-vis H2 2016 as income tax expense were higher by S\$0.4 million.

FY 2017 vs FY 2016

Year-on-year, the decrease in income tax expense of S\$0.4 million or 28.4% was mainly due to S\$0.5 million higher withholding taxes paid in FY 2016 in respect of higher dividends received from associated company.

As a result, net profit increased by S\$2.0 million or 88.1% over last year. However, excluding one-time valuation gain of S\$1.8 million arising from the listing of our associated company, net profit would be marginally higher by S\$0.1 million or 5.6%.

8(a)(ix) Total comprehensive income

H2 2017 vs H1 2017

H2 2017 vs H2 2016

As compared to S\$0.4 million translation losses incurred on foreign operations recorded in H1 2017 and minimal translation losses in H2 2016, translation gains of S\$0.3 million was recorded in H2 2017 primarily from a stronger Malaysian Ringgit.

As a result, comprehensive income for H2 2017 increased by S\$0.5 million or 28.0% over H1 2017 and S\$1.0 or 79.8% vis-à-vis H2 2016.

FY 2017 vs FY 2016

Year-on-year, translation losses incurred on foreign operations decreased by S\$0.6 million or 83.6% as Malaysia Ringgit and British Pound recovered in FY 2017, contributing to the increase in comprehensive income of S\$2.6 million or 168.4% over FY 2016.

8(b) BALANCE SHEET ANALYSIS

Balance Sheet Highlights	As at		Variance
	31 December 2016	31 December 2017	31 December 2017 vs 31 December 2016 Fav/(Unfav)
Cash (S\$'mil)	11.6	9.3	(2.2)
Borrowings (S\$'mil)	15.3	16.7	(1.4)
Current ratio (times)	2.3	2.1	(0.2)
Gearing ratio (times)	0.36	0.37	(0.01)
Net assets per share attributable to equity holders of the Company (cents)	31.50	33.47	1.97
Inventory turnover (days)	116	115	1
Trade receivables turnover (days)	94	93	1

Property, plant and equipment

Property, plant and equipment decreased by S\$0.6 million or 5.0% mainly due to depreciation charge of S\$1.2 million offset by capital expenditure of S\$0.6 million during the year.

Investment in associated companies

The increase in carrying value of our associated companies by S\$2.4 million or 76.6% was mainly due to (i) one-time valuation gain of S\$1.8 million arising from the listing of our associated company; (ii) positive contribution from operation for the current year of S\$0.8 million offset by dividend return of S\$0.4 million and; (iii) translation gain of S\$0.1 million.

Deferred tax assets

Deferred tax assets of S\$0.3 million recognized as at 31 December 2017 relate mainly to trading losses to be carried forward against future taxable profits.

Trade and other receivables

Net third party trade receivables increased by S\$3.1 million or 13.1% from S\$23.9 million as at 31 December 2016 to S\$27.1 million as at 31 December 2017 after recognizing a net increase in allowance for impairment of S\$1.3 million as explained in the previous sections.

Gross third party trade receivables in fact increased by S\$4.4 million or 17.5% as a result of higher sales in H2 2017 as compared to H2 2016. Turnover days for FY 2017 improved marginally to 93 days from 94 days in FY 2016.

Inventories

Inventories increased by S\$3.5 million or 17.4% to S\$23.9 million as at 31 December 2017 from S\$20.4 million as at 31 December 2016. This was in line with steady sales growth from H2 2016 to H2 2017. Inventory turnover days remained relatively stable at 115 days as compared to 116 days for the full year of 2016.

Other current assets

Other current assets decreased by S\$0.5 million to S\$1.6 million as compared S\$2.2 as at 31 December 2016 mainly due to S\$0.3 million lower advance payments to suppliers for inventory purchase.

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

The increase in financial assets at fair value through profit or loss was mainly due to positive fair value gain of S\$430,000 in listed equity offset by a decrease in fair value gain of forward contracts of S\$65,000 from realization of contracts.

Financial liabilities at fair value through profit or loss were not significant as at 31 December 2017 and 31 December 2016.

Trade and other payables

Corresponding to the increase in inventories, total trade payables increased by S\$2.7 million or 42.4% from S\$6.3 million as at 31 December 2016 to S\$9.0 million at 31 December 2017.

Other payables in aggregate consisting of accrued operating expenses and advance payments from customer decreased by S\$0.1 million from S\$6.7 million as at 31 December 2016 to S\$6.6 million as at 31 December 2017 primarily due to lower advance payments from customers.

Borrowings

Total borrowings increased by S\$1.4 million or 8.8% as S\$2.5 million additional trade borrowings were utilized to finance higher sales and higher inventory purchases in the current year. On the other hand, both short term and long term bank loans in aggregate fell by S\$1.1 million as compared to 31 December 2016.

In line with higher borrowings, our gearing ratio increased marginally from 0.36 times as at 31 December 2016 to 0.37 times as at 31 December 2017.

Net asset value

Net asset value per share increased from 31.50 cents as at 31 December 2016 to 33.47 cents as at 31 December 2017 primarily due to total comprehensive income for the current year of S\$4.2 million offset by dividend payment to shareholders of S\$1.6 million.

8(c) CASH FLOW

The increase in working capital requirements, arising from higher inventory and trade receivables, was in line with higher sales in FY 2017 and this resulted in a deficit in cash from operations. As such, higher trade borrowings were drawn down to fund the operation.

Other cash obligations such as capital expenditure, dividend payments and bank loans repayment were met from cash and cash equivalents carried forward.

As a result, overall cash and cash equivalents decreased by S\$2.2 million from S\$11.5 million as at 31 December 2016 to S\$9.3 million as at 31 December 2017.

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

There was no forecast previously disclosed to shareholders.

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

RISK FACTORS

We believe the imminent risks to our financial performance in the year 2018 ("FY 2018") are as follows:

Global economy

Although most economic researches indicate that the current economic growth cycle will prolong further, political uncertainties, China's economic growth transition, tighter monetary policies, concern over the fragility of the Euro zone, especially after Brexit, shift in trade policies and stretched financial market valuations pose downside risks to the global economy. If these risk factors do not subside, it may weigh on the prospects for the global economy and the chemical industry. This will then have an impact on our business.

Financial market risk

Financial market activity and economic growth are closely linked. The Bank of International Settlements (BIS) has warned of stretched market valuations. Should financial markets risk escalate into a major correction, it may have an impact on economic growth and hence on our business prospect.

Volatility in energy prices

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

Currency risk

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

Interest rate risk

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

Credit risk

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

Country risk

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

Inventory risk

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

PROSPECTS**2017 Review in Summary**

Megachem turned in a mixed performance in 2017. With improved business confidence, business activity momentum picked up across our major market segments. Intensified marketing efforts have also led to broader portfolio of customers and products. In addition, our associated company in Thailand made a successful debut on the stock exchange in Thailand. Arising from this, a one-off valuation gain was recorded for the Group. On the flip side, we had to record higher allowance for impairment of trade receivables from Venezuela customers as the foreign exchange control issues and political turmoil remain unresolved. We also suffered net foreign exchange loss vis-à-vis gain in the previous year following an unexpected depreciation in the US Dollar.

2018 Outlook

Going into 2018, most economic reports have painted a positive economic growth picture on the back of upbeat business sentiments. Riding on the wave of growth, the chemical industry is also experiencing stronger demand coupled with price increases. However there are risk factors that may derail the growth outlook. These include political uncertainties, China's economic growth transition, tighter monetary policies, concern over the fragility of the Euro zone, especially after Brexit, shift in trade policies and stretched financial market valuations. Although some of these risks factors seem to be fading, they are still lurking in the background.

For Megachem, the combination of positive economic conditions and a robust business model should provide the impetus to strengthen our business further going into 2018 provided the risks factors listed above do not materialize. Moreover, having already made full impairment of our Venezuela debts, we are starting 2018 on a clean slate as we do not foresee any further significant impairment of our receivables. We have therefore begun 2018 in a stronger position than before to take advantage of opportunities that the market presents.

Strategy

For the longer term, our strategy of focusing on strengthening key customer and supplier relationships by leveraging on our strong Asia network has served us well and will remain a cornerstone of our business strategy.

We also will persist with our efforts to nurture long term sustainable values through a sound business model, financial discipline and operational excellence which will in turn provide a solid foundation for our long term growth.

11. Dividend

(a) Current financial year reported on

Any dividend declared (recommended) for the current financial year ended 31 December 2017? 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 2017 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	0.5
Tax rate	Exempt	Exempt

(b) Corresponding period of the immediately preceding financial year

Any dividend declared for the immediately preceding financial year ended 31 December 2016? Yes

Name of dividend	Final	Interim
Dividend type	Cash	Cash
Dividend amount per share (in cents)	0.7	0.5
Tax rate	Exempt	Exempt

(c) Date payable

The final tax exempt dividend of 0.7 cent per share in respect of the financial year ended 31 December 2017, subject to approval by the shareholders at the next Annual General Meeting to be convened, will be paid on 31 May 2018.

(d) Books closure date

The Transfer Books and Register of Members of the Company will be closed on 11 May 2018 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 10 May 2018 will be registered to determine member's entitlement to the proposed dividend.

Members (being depositors) whose securities account with The Central Depository (Pte) Limited are credited with ordinary shares in the capital of the Company as at 5.00pm on 10 May 2018 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 31 May 2018.

12. Segmented revenue and results for operating 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 2017							
Sales							
Total sales by segment	54,472	14,314	10,510	16,535	29,964	-	125,795
Inter-segment sales	(8,000)	(377)	(169)	(4,485)	(4,662)	-	(17,693)
	<u>46,472</u>	<u>13,937</u>	<u>10,341</u>	<u>12,050</u>	<u>25,302</u>	<u>-</u>	<u>108,102</u>
Segment result							
Gain on dilution of interest in associated companies	1,302	1,733	971	(1,772)	750	-	2,984
Interest income - bank						1,839	1,839
Finance costs						100	100
Share of profit of associated companies						(533)	(533)
Profit before income tax						818	818
Income tax expense						2,224	5,208
						<u>(1,013)</u>	<u>(1,013)</u>
Net profit	<u>1,302</u>	<u>1,733</u>	<u>971</u>	<u>(1,772)</u>	<u>750</u>	<u>1,211</u>	<u>4,195</u>
Other segment items							
Capital expenditure	280	72	91	-	122	-	565
Depreciation	961	100	54	3	50	-	1,168

	<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							
Associated companies	30,589	12,861	6,717	5,197	16,703	-	72,067
Deferred tax assets						5,521	5,521
Interest earning cash balances						268	268
						2,049	2,049
Consolidated total assets	<u>30,589</u>	<u>12,861</u>	<u>6,717</u>	<u>5,197</u>	<u>16,703</u>	<u>7,838</u>	<u>79,905</u>
Segment liabilities							
Borrowings	(5,629)	(878)	(718)	(4,660)	(3,712)	-	(15,597)
Current income tax liabilities						(16,682)	(16,682)
						(432)	(432)
Consolidated total liabilities	<u>(5,629)</u>	<u>(878)</u>	<u>(718)</u>	<u>(4,660)</u>	<u>(3,712)</u>	<u>(17,114)</u>	<u>(32,711)</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 2016							
Sales							
Total sales by segment	50,325	11,971	10,582	15,280	25,473	-	113,631
Inter-segment sales	(6,673)	(412)	(95)	(2,243)	(4,445)	-	(13,868)
	<u>43,652</u>	<u>11,559</u>	<u>10,487</u>	<u>13,037</u>	<u>21,028</u>	<u>-</u>	<u>99,763</u>
Segment result							
Interest income - bank	1,399	1,146	1,299	(479)	199	-	3,564
Finance costs						81	81
Share of profit of associated companies						(560)	(560)
Profit before income tax						559	559
Income tax expense						80	3,644
						(1,414)	(1,414)
Net profit	<u>1,399</u>	<u>1,146</u>	<u>1,299</u>	<u>(479)</u>	<u>199</u>	<u>(1,334)</u>	<u>2,230</u>
Other segment items							
Capital expenditure	240	180	48	-	44	-	512
Depreciation	1,255	100	30	13	62	-	1,460
	<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							
Associated companies	30,554	10,217	6,746	7,016	12,557	-	67,090
Interest earning cash balances						3,126	3,126
						2,993	2,993
Consolidated total assets	<u>30,554</u>	<u>10,217</u>	<u>6,746</u>	<u>7,016</u>	<u>12,557</u>	<u>6,119</u>	<u>73,209</u>
Segment liabilities							
Borrowings	(5,224)	(520)	(704)	(3,668)	(2,907)	-	(13,023)
Current income tax liabilities						(15,326)	(15,326)
						(63)	(63)
Consolidated total liabilities	<u>(5,224)</u>	<u>(520)</u>	<u>(704)</u>	<u>(3,668)</u>	<u>(2,907)</u>	<u>(15,389)</u>	<u>(28,412)</u>

12. Segmented revenue and results for operating 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 2017				
Sales				
Total sales by segment	122,476	3,319	-	125,795
Inter-segment sales	(17,010)	(683)	-	(17,693)
	<u>105,466</u>	<u>2,636</u>	<u>-</u>	<u>108,102</u>
Segment result	2,877	107	-	2,984
Gain on dilution of interest in in associated companies			1,839	1,839
Interest income - bank			100	100
Finance costs			(533)	(533)
Share of profit of associated companies			<u>818</u>	<u>818</u>
Profit before income tax			2,224	5,208
Income tax expense			(1,013)	(1,013)
Net profit	<u>2,877</u>	<u>107</u>	<u>1,211</u>	<u>4,195</u>
Other segment items				
Capital expenditure	558	7	-	565
Depreciation	<u>553</u>	<u>615</u>	<u>-</u>	<u>1,168</u>
	<u>Distribution</u> S\$'000	<u>Manufacturing</u> S\$'000	<u>Unallocated</u> S\$'000	<u>Group</u> S\$'000
Segment assets	65,798	6,269	-	72,067
Associated companies			5,521	5,521
Deferred tax assets			268	268
Interest earning cash balances			<u>2,049</u>	<u>2,049</u>
Consolidated total assets	<u>65,798</u>	<u>6,269</u>	<u>7,838</u>	<u>79,905</u>
Segment liabilities	(15,222)	(375)	-	(15,597)
Borrowings			(16,682)	(16,682)
Current income tax liabilities			<u>(432)</u>	<u>(432)</u>
Consolidated total liabilities	<u>(15,222)</u>	<u>(375)</u>	<u>(17,114)</u>	<u>(32,711)</u>

**For the financial year ended
31 December 2016**

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	109,715	3,916	-	113,631
Inter-segment sales	(13,437)	(431)	-	(13,868)
	<u>96,278</u>	<u>3,485</u>	<u>-</u>	<u>99,763</u>

Segment result

	3,319	245	-	3,564
Interest income - bank			81	81
Finance costs			(560)	(560)
Share of profit of associated companies			<u>559</u>	<u>559</u>
Profit before income tax			80	3,644
Income tax expense			<u>(1,414)</u>	<u>(1,414)</u>
Net profit	<u>3,319</u>	<u>245</u>	<u>(1,334)</u>	<u>2,230</u>

Other segment items

Capital expenditure	463	49	-	512
Depreciation	<u>575</u>	<u>885</u>	<u>-</u>	<u>1,460</u>

	<u>Distribution</u> S\$'000	<u>Manufacturing</u> S\$'000	<u>Unallocated</u> S\$'000	<u>Group</u> S\$'000
Segment assets	59,770	7,320	-	67,090
Associated companies			3,126	3,126
Interest earning cash balances			<u>2,993</u>	<u>2,993</u>
Consolidated total assets	<u>59,770</u>	<u>7,320</u>	<u>6,119</u>	<u>73,209</u>
Segment liabilities	(12,572)	(451)	-	(13,023)
Borrowings			(15,326)	(15,326)
Current income tax liabilities			<u>(63)</u>	<u>(63)</u>
Consolidated total liabilities	<u>(12,572)</u>	<u>(451)</u>	<u>(15,389)</u>	<u>(28,412)</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 2017 S\$'000	Full year ended 31 December 2016 S\$'000	Variance Increase/ (decrease) S\$'000 %	
<u>Sales</u>				
(a) Sales for the first half ("H1")	51,413	51,295	118	0.2%
(b) Sales for the second half ("H2")	56,689	48,468	8,221	17.0%
<i>Increase/(decrease) H2 from H1</i>	5,276	<i>(2,827)</i>		
<i>Increase/(decrease) H2 from H1 (in %)</i>	10.3%	<i>(5.5%)</i>		
<u>Operating profit after tax</u>				
(c) Operating profit after tax and before attributing to non-controlling interests for H1	2,201	921	1,281	139.1%
(d) Operating profit after tax and before attributing to non-controlling interests for H2	1,994	1,309	684	52.3%
<i>Increase H2 from H1</i>	(208)	389		
<i>Increase H2 from H1 (in %)</i>	(9.4%)	42.2%		

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

	Full year ended 31 December 2017 S\$	Full year ended 31 December 2016 S\$
Total annual dividend paid		
Ordinary	1,599,600	1,599,600

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 2017 under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions during the financial year ended 31 December 2017 conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
Transportation services rendered by Ipem Automation Sdn. Bhd, a company owned by associates of Mr Chew Choon Tee, a director of Megachem Group	(Note 1)	Nil (Note 1)
Sales of products to Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations	Nil (Note 2)	Nil (Note 2)
Purchase of products from Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations	(Note 3)	Nil (Note 3)

Name of interested person	Aggregate value of all interested person transactions during the financial year ended 31 December 2017 under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions during the financial year ended 31 December 2017 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 4)	Nil (Note 4)
Short term loan from Tan Bock Chia, a director of Megachem Group	(Note 5)	Nil (Note 5)

Note 1 : The Group entered into interested person transactions amounting in aggregate to S\$24,285 and each transaction was below S\$100,000 which fell outside the scope of Rule 920. There was no prior shareholders' mandate obtained for these interested person transactions.

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

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

Note 4 : The Group entered into purchase transactions amounting to S\$71,141 and each transaction was below S\$100,000 which fell outside the scope of Rule 920. There was no prior shareholders' mandate obtained for these interested person transactions.

Note 5 : The short term loan of S\$287,560 received by the Group is interest-free. The loan remained outstanding as at date of announcement.

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	50	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, a wholly-owned subsidiary of Megachem Limited, since 1 January 2009.	Nil

The following directors and substantial shareholders have confirmed that as at 31 December 2017, 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
Tay Kin Bee	Director
Toshiyuki Yokogawa	Director

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

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

On behalf of the Board of Directors

Chew Choon Tee
Executive Chairman
22 February 2018

Tan Bock Chia
Executive Director