



# MEGACHEM LIMITED

## Un-audited Financial Statements and Dividend Announcement

For The Half Year Ended  
30 June 2014

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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 HALF YEAR ENDED 30 JUNE 2014

The directors of Megachem Limited are pleased to advise the following unaudited results of the Group for the half year ended 30 June 2014.

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

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2014

	For the half year ended 30 June 2014 S\$	For the half year ended 30 June 2013 S\$	Variance Favourable/(Unfavourable)	
			S\$'000	%
Sales	55,630,174	51,861,049	3,769	7.3%
Cost of sales	<u>(44,655,509)</u>	<u>(41,417,510)</u>	(3,238)	(7.8%)
<b>Gross profit</b>	<b>10,974,665</b>	<b>10,443,539</b>	<b>531</b>	<b>5.1%</b>
Other operating income	132,854	60,553	72	119.4%
Distribution costs	(5,950,697)	(5,687,272)	(263)	(4.6%)
Administrative expenses	(2,359,282)	(2,239,817)	(119)	(5.3%)
Other operating expenses	(1,454,264)	(1,406,902)	(47)	(3.4%)
Finance costs	(220,141)	(173,520)	(47)	(26.9%)
Share of profit of associated companies	466,172	1,064,135	(598)	(56.2%)
<b>Profit before income tax</b>	<b>1,589,307</b>	<b>2,060,716</b>	<b>(471)</b>	<b>(22.9%)</b>
Income tax expense	<u>(447,465)</u>	<u>(544,194)</u>	97	17.8%
<b>Net profit</b>	<b>1,141,842</b>	<b>1,516,522</b>	<b>(375)</b>	<b>(24.7%)</b>
Other comprehensive income:				
Exchange differences on translating foreign operations, net of tax	<u>7,344</u>	<u>(45,568)</u>	53	116.1%
<b>Total comprehensive income</b>	<b>1,149,186</b>	<b>1,470,954</b>	<b>(322)</b>	<b>(21.9%)</b>
Net profit attributable to:				
Equity holders of the Company	1,017,579	1,345,008	(327)	(24.3%)
Non-controlling interests	<u>124,263</u>	<u>171,514</u>	(47)	(27.5%)
<b>Net profit</b>	<b>1,141,842</b>	<b>1,516,522</b>	<b>(375)</b>	<b>(24.7%)</b>
Total comprehensive income attributable to:				
Equity holders of the Company	1,022,966	1,313,831	(291)	(22.1%)
Non-controlling interests	<u>126,220</u>	<u>157,123</u>	(31)	(19.7%)
<b>Total comprehensive income</b>	<b>1,149,186</b>	<b>1,470,954</b>	<b>(322)</b>	<b>(21.9%)</b>
Earnings per share of profit attributable to equity holders of the Company during the financial period				
- basic and diluted	<u>0.76 cents</u>	<u>1.01 cents</u>		

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

	For the half year ended 30 June 2014 S\$	For the half year ended 30 June 2013 S\$
<u>Other operating income</u>		
Bad debt recovered	51,212	2,277
Change in fair value of financial assets held for trading	5,000	15,299
Gain on disposal of property, plant and equipment	-	4,491
Grant income	40,653	-
Interest income from banks	25,154	19,569
Management fees	2,330	10,053
Rental income	8,505	8,864
	<b>132,854</b>	<b>60,553</b>
Change in fair value of financial assets held for trading - forward foreign exchange contracts	-	15,299
Change in fair value of financial assets held for trading - listed equity security	5,000	-
Change in fair value of financial liabilities held for trading - forward foreign exchange contracts	(25,965)	(49,438)
Depreciation and amortisation	(756,169)	(738,925)
Interest on borrowings	(220,141)	(173,520)
Impairment of trade receivables	(120,113)	(79,191)
Net foreign exchange loss	(72,714)	(41,944)
Write off of inventory	(338,943)	(163,912)
Adjustment for (under)/over provision for tax in respect of prior financial years	546	(56,794)

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

# STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	<u>Group</u>		<u>Company</u>	
	30 June	31 December	30 June	31 December
	2014	2013	2014	2013
	S\$	S\$	S\$	S\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and bank balances	10,809,439	8,541,129	1,723,281	1,562,182
Trade and other receivables	27,354,669	26,066,257	18,924,629	16,622,520
Inventories	20,233,319	19,824,073	10,511,323	10,497,460
Financial assets held for trading	45,000	132,688	45,000	41,440
Other current assets	3,168,378	1,946,472	760,668	359,609
	<b>61,610,805</b>	<b>56,510,619</b>	<b>31,964,901</b>	<b>29,083,211</b>
<b>Non-current assets</b>				
Transferable club memberships	31,091	30,818	4,001	4,001
Investment in associated companies	6,498,789	6,239,604	99,949	99,949
Investments in subsidiaries	-	-	4,484,251	4,484,251
Investment property	109,643	110,348	-	-
Property, plant and equipment	12,433,639	11,828,672	2,051,558	2,088,836
	<b>19,073,162</b>	<b>18,209,442</b>	<b>6,639,759</b>	<b>6,677,037</b>
<b>Total assets</b>	<b>80,683,967</b>	<b>74,720,061</b>	<b>38,604,660</b>	<b>35,760,248</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	14,903,898	14,156,136	4,653,628	5,694,079
Current income tax liabilities	146,272	296,316	51,266	101,829
Borrowings	22,798,181	17,673,530	14,679,992	10,308,842
Financial liabilities held for trading	25,965	45,756	1,705	-
	<b>37,874,316</b>	<b>32,171,738</b>	<b>19,386,591</b>	<b>16,104,750</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	120,000	40,000	120,000	40,000
Borrowings	-	-	-	-
	<b>120,000</b>	<b>40,000</b>	<b>120,000</b>	<b>40,000</b>
<b>Total liabilities</b>	<b>37,994,316</b>	<b>32,211,738</b>	<b>19,506,591</b>	<b>16,144,750</b>
<b>NET ASSETS</b>	<b>42,689,651</b>	<b>42,508,323</b>	<b>19,098,069</b>	<b>19,615,498</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders of the Company</b>				
Share capital	15,892,028	15,892,028	15,892,028	15,892,028
Other reserves	(2,689,407)	(2,694,794)	-	-
Retained earnings	27,203,254	27,118,465	3,206,041	3,723,470
	<b>40,405,875</b>	<b>40,315,699</b>	<b>19,098,069</b>	<b>19,615,498</b>
<b>Non-controlling interests</b>	<b>2,283,776</b>	<b>2,192,624</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>	<b>42,689,651</b>	<b>42,508,323</b>	<b>19,098,069</b>	<b>19,615,498</b>

# 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 2014		As at 31 December 2013	
Secured	Unsecured	Secured	Unsecured
S\$4,641,165	S\$18,157,016	S\$4,880,719	S\$12,792,811

Amount repayable after one year

As at 30 June 2014		As at 31 December 2013	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

## Details of collateral

The secured borrowings were collateralized on:

- i. fixed and floating charges over all the assets and undertaking of a subsidiary, including all present and future freehold and leasehold property, book and other debts, chattels, goodwill and uncalled capital, both present and future; and
- ii. mortgage over property located at 11 Tuas Link 1 Singapore 638588.

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

# CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 30 JUNE 2014

	For the half year ended 30 June 2014 S\$	For the half year ended 30 June 2013 S\$
<b>Cash flows from operating activities</b>		
Net profit	1,141,842	1,516,522
Adjustments for:		
Change in fair value of financial assets held for trading	(5,000)	-
Depreciation charge	756,169	738,925
Gain on disposal of property, plant and equipment	-	(4,491)
Share of profit of associated companies	(466,172)	(1,064,135)
Income tax expense	447,465	544,194
Interest income	(25,154)	(19,569)
Finance costs	220,141	173,520
Operating cash flow before working capital changes	2,069,291	1,884,966
Change in operating assets and liabilities		
Trade and other receivables	(2,535,669)	(2,293,366)
Inventories	(409,246)	(188,309)
Financial assets held for trading	92,688	2,446
Trade and other payables	771,878	(1,271,900)
Financial liabilities held for trading	(19,791)	31,975
Foreign exchange adjustment differences	16,277	(206,126)
Cash used in operations	(14,572)	(2,040,314)
Income tax paid	(492,158)	(464,969)
Interest received	25,154	19,569
<b>Net cash used in operating activities</b>	<b>(481,576)</b>	<b>(2,485,714)</b>
<b>Cash flows from investing activities</b>		
Dividends received from associated company	187,529	72,753
Purchase of property, plant and equipment	(1,391,624)	(962,988)
Proceeds from sale of property, plant and equipment	-	7,413
<b>Net cash used in investing activities</b>	<b>(1,204,095)</b>	<b>(882,822)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(933,100)	(1,333,000)
Dividends paid by subsidiary to non-controlling shareholders	(35,068)	(22,470)
Proceeds from borrowings	4,017,346	1,705,020
Repayment of long term bank loan	(300,000)	(300,000)
Proceeds from short term bank loans	1,492,215	1,600,000
Refunds of prior year unclaimed dividends	310	-
Interest paid	(197,332)	(168,351)
<b>Net cash from financing activities</b>	<b>4,044,371</b>	<b>1,481,199</b>
<b>Net increase/(decrease) in cash and cash equivalents held</b>	<b>2,358,700</b>	<b>(1,887,337)</b>
Cash and cash equivalents at beginning of the financial period	8,439,428	8,055,895
Effects of exchange rate changes on cash and cash equivalents	11,311	4,957
<b>Cash and cash equivalents at end of the financial period</b>	<b>10,809,439</b>	<b>6,173,515</b>
Cash and cash equivalents comprised the followings:		
Cash and bank balances	10,809,439	6,669,401
Less: bank overdraft	-	(495,886)
	<b>10,809,439</b>	<b>6,173,515</b>

**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 period.**

**STATEMENTS OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2014**

	Attributable to equity holders of the Company					
		Parent	Share	Other	Retained	Non-controlling
<u>The Group</u>	Total equity S\$	Sub-total S\$	capital S\$	reserves S\$	earnings S\$	interests S\$
<b>Balance at 1 January 2014</b>	42,508,323	40,315,699	15,892,028	(2,694,794)	27,118,465	2,192,624
Total comprehensive income for the financial period	1,149,186	1,022,966	-	5,387	1,017,579	126,220
Final dividend relating to 2013 paid	(968,168)	(933,100)	-	-	(933,100)	(35,068)
Prior years unclaimed dividends refunded	310	310	-	-	310	-
<b>Balance at 30 June 2014</b>	<b>42,689,651</b>	<b>40,405,875</b>	<b>15,892,028</b>	<b>(2,689,407)</b>	<b>27,203,254</b>	<b>2,283,776</b>
<b>Balance at 1 January 2013</b>	41,758,721	39,855,358	15,892,028	(2,387,356)	26,350,686	1,903,363
Total comprehensive income for the financial period	1,470,954	1,313,831	-	(31,177)	1,345,008	157,123
Final dividend relating to 2012 paid	(1,355,470)	(1,333,000)	-	-	(1,333,000)	(22,470)
<b>Balance at 30 June 2013</b>	<b>41,874,205</b>	<b>39,836,189</b>	<b>15,892,028</b>	<b>(2,418,533)</b>	<b>26,362,694</b>	<b>2,038,016</b>
<u>The Company</u>	Total equity S\$	Share capital S\$	Retained earnings S\$			
<b>Balance at 1 January 2014</b>	19,615,498	15,892,028	3,723,470			
Total comprehensive income for the financial period	415,361	-	415,361			
Final dividend relating to 2013 paid	(933,100)	-	(933,100)			
Prior years unclaimed dividends refunded	310	-	310			
<b>Balance at 30 June 2014</b>	<b>19,098,069</b>	<b>15,892,028</b>	<b>3,206,041</b>			
<b>Balance at 1 January 2013</b>	21,146,837	15,892,028	5,254,809			
Total comprehensive income for the financial period	164,775	-	164,775			
Final dividend relating to 2012 paid	(1,333,000)	-	(1,333,000)			
<b>Balance at 30 June 2013</b>	<b>19,978,612</b>	<b>15,892,028</b>	<b>4,086,584</b>			



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

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

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

There were no unissued shares in the capital of the Company reserved for the exercise of any option nor were there any treasury share as at the end of the financial periods ended 30 June 2014 and 30 June 2013.

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

The total number of issued ordinary shares, excluding treasury shares, as at the end of the financial period and year ended 30 June 2014 and 31 December 2013 was 133,300,000.

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

The figures have not been audited or reviewed.

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

Not applicable.

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

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as those of the audited financial statements for the financial year ended 31 December 2013.

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

On 1 January 2014, the Group adopted the new and revised 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.**

	<b>For the half year ended 30 June 2014</b>	For the half year ended 30 June 2013
Earnings per ordinary shares (in cents)		
a) Based on weighted average number of ordinary shares on issue	<b>0.76</b>	1.01
b) On a fully diluted basis	<b>0.76</b>	1.01
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.**

	<b>30 June 2014</b>	<b><u>Group</u> 31 December 2013</b>	<b>30 June 2014</b>	<b><u>Company</u> 31 December 2013</b>
Net asset value per ordinary share based on issued share capital (cents)	<b>30.31</b>	30.24	<b>14.33</b>	14.72
No of ordinary shares used in calculation	<b>133,300,000</b>	133,300,000	<b>133,300,000</b>	133,300,000

## 8. REVIEW OF PERFORMANCE

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

Profitability Highlights	H1 2014	H2 2013	H1 2013	Variance H1 2014 vs H2 2013		Variance H1 2014 vs H1 2013	
				Fav/(Unfav)	%	Fav/(Unfav)	%
Sales (S\$'mil)	55.6	56.8	51.9	(1.2)	(2.1%)	3.8	7.3%
Gross profit (S\$'mil)	11.0	11.1	10.4	(0.2)	(1.4%)	0.5	5.1%
Gross profit margin	19.7%	19.6%	20.1%	0.1% pts	na	(0.4% pts)	na
Total expenses and finance costs (S\$'mil)	10.0	10.1	9.5	0.2	1.6%	(0.5)	(5.0%)
Other operating income (S\$'000)	133	151	61	(18)	(12.1%)	72	119.4%
Share of profit of associated companies (S\$'000)	466	646	1,064	(180)	(27.8%)	(598)	(56.2%)
Net profit before tax (S\$'mil)	1.6	1.8	2.1	(0.2)	(11.2%)	(0.5)	(22.9%)
Net profit after tax (S\$'mil)	1.1	1.3	1.5	(0.1)	(10.0%)	(0.4)	(24.7%)
Net profit after tax margin	2.1%	2.2%	2.9%	(0.1% pts)	na	(0.8% pts)	na
EBITDA (S\$'mil)	2.5	2.7	3.0	(0.2)	(6.1%)	(0.4)	(14.0%)
Earnings per share attributable to the equity holders of the Company (cents)	0.76	0.87	1.01	(0.11)	(12.6%)	(0.25)	(24.8%)
Annualised return on equity (ROE)	5.0%	5.7%	6.8%	(0.7% pts)	na	(1.8% pts)	na

### 8(a) PROFITABILITY ANALYSIS

#### 8(a)(i) Sales

	H1 2014	H2 2013	H1 2013	Variance Fav/(Unfav) H1 2014 vs H2 2013		Variance Fav/(Unfav) H1 2014 vs H1 2013	
	S\$'000	S\$'000	S\$'000	S\$'000	%	S\$'000	%
ASEAN	39,225	36,907	36,847	2,318	6.3	2,378	6.5
North Asia	4,977	4,639	4,362	338	7.3	615	14.1
America	3,569	8,196	3,239	(4,626)	(56.4)	330	10.2
Europe	2,680	2,838	2,752	(158)	(5.6)	(72)	(2.6)
South Asia	1,975	2,249	1,982	(274)	(12.2)	(7)	(0.4)
Middle East	1,722	1,067	1,427	655	61.4	295	20.7
Australia	1,479	927	1,160	552	59.5	319	27.5
Africa	3	-	92	3	100.0	(89)	(96.7)
Total	55,630	56,823	51,861	(1,192)	(2.1)	3,769	7.3

#### Geographic Segment Sales Analysis

##### H1 2014 vs H2 2013

Back by healthy growth from Singapore and Vietnam markets, sales from ASEAN grew moderately by S\$2.3 million or 6.3% in the first half of 2014 ("H1 2014") after being stagnant in both second half of 2013 ("H2 2013") and first half of 2013 ("H1 2013"). Sales to Middle East and Australia markets picked up with increase of close to 60% after a dip in H2 2013. In tandem with stable and moderate growth reported from China economy, sales from North Asia grew consistently since H1 2013.

On the other hand, Europe and South Asia markets contracted moderately while sales to South America markets normalised in H1 2014 after pent up demand in H2 2013 as the political situation turned around for the better. This caused overall sales for H1 2014 to fall by S\$1.2 million or 2.1% as compared to H2 2013.

#### H1 2014 vs H1 2013

Most markets registered higher sales in H1 2014 as compared to H1 2013. Led by our largest market ASEAN, which saw sales increased by S\$2.4 million or 6.5%, total sales increased by S\$3.8 million or 7.3%.

#### **Business Activity Segment Sales Analysis**

	H1 2014	H2 2013	H1 2013	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2014 vs H2 2013		H1 2014 vs H1 2013	
				S\$'000	%	S\$'000	%
Distribution activity	54,038	55,009	50,222	(971)	(1.8)	3,816	7.8
Manufacturing activity	1,592	1,814	1,639	(222)	(12.2)	(47)	(2.8)
Total Sales	55,630	56,823	51,861	(1,192)	(2.1)	3,769	7.3

#### H1 2014 vs H2 2013

Distribution activities contracted marginally primarily due to lower sales to South America market after an exceptional strong performance in H2 2013.

Revenue from contract manufacturing decreased by S\$0.2 million or 12.2% as compared to H2 2013 as activities in the first half of the year were usually slower than the second half.

#### H1 2014 vs H1 2013

Vis-à-vis H1 2013, distribution activities expanded by S\$3.8 million or 7.8% in line with improved general market conditions for the current period while manufacturing activities remained relatively flat.

#### **8(a)(ii) Gross profit**

##### H1 2014 vs H2 2013

While the gross profit margin for H2 2013 was affected by higher indent sales to South America which earned lower margin, gross profit margin for H1 2014 was eroded by a higher write off of inventory despite higher contribution of sales from the ASEAN region for the current period. As a result, gross profit margin improved only marginally to 19.7% from 19.6% in H2 2013.

Consequently, gross profit declined marginally by \$0.2 million or 1.4% following a slight decrease in sales.

##### H1 2014 vs H1 2013

Similarly, the fall in gross profit margin by 0.4%-point vis-à-vis H1 2013 was mainly due to higher write off of inventory. However, as a result of higher sales achieved for the current period, overall gross profit increased by S\$0.5 million or 5.1% year-on-year.

### 8(a)(iii) Other operating income

	H1 2014	H2 2013	H1 2013	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2014 vs H2 2013	H1 2014 vs H1 2013	H1 2014 vs H2 2013	H1 2014 vs H1 2013
				S\$'000	%	S\$'000	%
Bad debt recovered	51	6	2	46	801.3	49	2,149.1
Change in fair value of financial assets held for trading	5	86	15	(81)	(94.2)	(10)	(67.3)
Grant income	41	15	-	26	176.6	41	100.0

#### H1 2014 vs H2 2013

Other operating income decreased by S\$18,000 or 12.1% mainly due to lower gain in fair value of listed equity security and forward foreign exchange contracts offset by higher bad debt recovered, mainly from reversal of impairment of trade receivables from Venezuela customer, and grant income.

#### H1 2014 vs H1 2013

Other operating income increased by S\$72,000 or 119.4% for similar reasons noted for a higher bad debt recovered and grant income.

### 8(a)(iv) Operating expenses

#### H1 2014 vs H2 2013

Total operating expenses for H1 2014 amounted to S\$9.8 million which represent a decrease of S\$176,000 or 1.8% over H2 2013. This was mainly due to lower foreign exchange loss as Rupees and Rupiah, the two currencies that caused the significant loss in H2 2013, recovered slightly in the current first half. Other significant variances were as follows:

	H1 2014	H2 2013	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Advertising and entertainment	160	218	58	26.8
Employee remuneration and related expenses	5,617	5,280	(338)	(6.4)
Net foreign exchange loss	73	617	544	88.2
Impairment of trade receivables	120	16	(104)	(644.3)
Travelling and transport	465	560	95	17.0
Rental	944	881	(64)	(7.2)

Lower travelling, transport and entertainment expenses were due to higher business travelling and conference expenses incurred in H2 2013.

This was offset by higher employee remuneration and related expenses, attributed mainly to annual pay increment, and higher rental expense which resulted from increase in warehousing rates as well as higher inventory holding.

The higher impairment charge for trade receivable for the current period of S\$120,000 was mainly for certain customers in Indonesia while minimal impairment was recognised in H2 2013.

#### H1 2014 vs H1 2013

Total operating expenses increased by S\$430,000 or 4.6% and the major variances were as follows:

	H1 2014	H1 2013	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Employee remuneration and related expenses	5,617	5,418	(199)	(3.7)
Impairment of trade receivables	120	79	(41)	(51.7)
Maintenance of property, plant and equipment	168	224	56	25.1
Professional fees	326	235	(91)	(38.5)
Travelling and transport	465	407	(58)	(14.3)
Rental	944	870	(74)	(8.5)

The increases seen in employee remuneration and related expenses, impairment of trade receivables and rental expenses were due to similar reasons as explained in the previous section.

Higher travelling and transport expenses were in line with the higher sales recorded in the current period as compared to H1 2013.

Higher professional fees incurred in H1 2014 were primarily for registration of trademarks and lawyers' fees relating to financing arrangement for the land acquisition in Malaysia.

On the other hand, lower maintenance expenses were incurred in the current period as certain non-recurring expenses incurred in H1 2013 relating to the office premise renovation and construction of manufacturing facilities spilled over from end of 2012.

#### **8(a)(v) Finance costs**

Finance costs comprised the following:-

	H1 2014	H2 2013	H1 2013	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2014 vs H2 2013	H1 2014 vs H1 2013	H1 2014 vs H2 2013	H1 2014 vs H1 2013
	S\$'000	S\$'000	S\$'000	S\$'000	%	S\$'000	%
Bills payables	119	87	92	(33)	(37.7)	(27)	(29.8)
Bank loans	101	116	82	15	13.0	(19)	(23.6)
Total finance costs	220	203	174	(17)	(8.6)	(47)	(26.9)

Overall finance costs increased consistently since H1 2013 as average borrowings had increased over the periods to support higher sales. Finance costs as a percentage of sales remained relatively unchanged.

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

##### H1 2014 vs H2 2013

The political uncertainty that had engulfed the country since late last year had hit the Thai economy hard in H1 2014 as domestic consumption contracted. This led to a decline in our share of profit by S\$0.2 million or 27.8% to S\$0.5 million compared to H2 2013.

#### H1 2014 vs H1 2013

Due to the same reason as explained above, the magnitude of fall was even greater by S\$0.6 million or 56.2% as share of profit fell from S\$1.1 million to S\$0.5 million.

#### **8(a)(vii) Profit before income tax**

##### H1 2014 vs H2 2013

Although gross profit declined marginally, the lower operating expense incurred for H1 2014 generally compensated for the fall in profitability. Hence, the decrease in profit before tax for H1 2014 by S\$0.2 million or 11.2% as compared to H2 2013 was largely due to lower share of profit from associated companies. The same could be explained for the fall in EBITDA by S\$0.2 million or 6.1%.

##### H1 2014 vs H1 2013

Despite achieving higher sales and gross profit, the decrease in profit before tax year-on-year by S\$0.5 million or 22.9% to S\$1.6 million from S\$2.1 million was primarily attributed to the decrease in share of profit from associated companies which fell significantly by S\$0.6 million. From EBITDA perspective, it was down by S\$0.4 million or 14.0%.

#### **8(a)(viii) Net profit**

Consistent with the above, net profit after tax decreased by S\$0.1 million or 10.0% vis-à-vis for H2 2013 to S\$1.4 million and year-on-year, it was down by S\$0.4 million or 24.7%.

## 8(b) BALANCE SHEET ANALYSIS

Balance Sheet Highlights	As at		Variance
	← 30 June 2014	31 December 2013 →	30 June 2014 vs 31 December 2013
			Fav/(Unfav)
Cash (S\$'mil)	10.8	8.5	2.3
Borrowings (S\$'mil)	22.8	17.7	(5.1)
Current ratio	1.63	1.76	(0.13)
Gearing ratio	0.56	0.44	(0.12)
Net assets per share attributable to equity holders of the Company (cents)	30.31	30.24	0.07
Inventory turnover (days)	90	90	-
Trade receivables turnover (days)	88	85	(3)

### Property, plant and equipment

Capital expenditure of S\$1.3 million was incurred mainly on progressive payments made for the purchase of industrial land in Malaysia. This was offset by depreciation charge of S\$0.8 million for the current period, resulting in net increase in property, plant and equipment of S\$0.6 million vis-à-vis 31 December 2013.

### Associated companies

The increase in the carrying value of our investment by S\$0.3 million or 4.2% was in line with net positive contribution from our associated companies for the current year offset by dividend received.

### Trade receivables

Net third party trade receivables increased by S\$1.5 million or 5.9% from S\$25.5 million as at 31 December 2013 to S\$26.9 million as at 30 June 2014 as outstanding from customers from South America remained high. Hence, turnover days increased slightly to 88 days as compared to 85 days in FY 2013. On the other hand, trade receivables due from associated company fell by S\$0.3 million as a result of lower sales in the current period.

### Inventory

Inventory increased marginally by S\$0.4 million or 2.1% to S\$20.2 million as at 30 June 2014 as compared to S\$19.8 million as at 31 December 2013. This was in line with growth in sales from ASEAN market in H1 2014. Inventory turnover days remained unchanged at 90 days for H1 2014.

### Other current assets

Other current assets of S\$3.2 million, which consist mainly of advances to suppliers and prepayments, increased by S\$1.2 million or 62.8% as compared to S\$1.9 million as at end of last year largely due to timing difference in advance payments to suppliers and prepayment.

### Financial assets and financial liabilities held for trading

The decrease in both financial assets held for trading of S\$88,000 and financial liabilities held for trading by S\$20,000 was primarily due to changes in fair value of foreign exchange forward contracts.

### Trade and other payables

Consistent with an increase in inventory, trade payables as at 30 June 2014 increased to S\$7.8 million from S\$7.6 million as at 31 December 2013. Total other payables increased by S\$0.4 million mainly due to the increase in advance payments from customers offset by lower accrued operating expenses and sundry creditors.



#### Borrowings

Total borrowings increased from S\$17.7 million to S\$22.8 million partly to fund payments for capital expenditure of S\$1.4 million, out of which progressive payments for the purchase of industrial land in Malaysia make up a significant portion, and higher operating cash requirement for trade to support sales and partly due to timing in repayment of borrowings which corresponded to higher cash and bank balances of S\$2.3 million vis-à-vis end of last year. As a result, our overall borrowings increased by S\$5.1 million and consequentially, our gearing ratio also went up to 0.56.

#### Net asset value

Net asset value per share increased from 30.24 cents as at 31 December 2013 to 30.31 cents as at 30 June 2014 primarily due to total comprehensive income for the current period of S\$1.0 million offset by dividend payment to shareholders of S\$0.9 million.

### **8(c) CASH FLOW**

Cash and cash equivalents of S\$10.8 million as at 30 June 2014 were S\$2.4 million higher than 31 December 2013 primarily due to net cash flow from financing of S\$4.0 million to fund capital expenditure for the purchase of property, plant and equipment of S\$1.4 million and net operating cash flow used in operation of S\$0.5 million.

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

In our full year results announcement for the financial year ended 31 December 2013, we did not provide specific prediction of our performance for H1 2014.

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

#### **RISK FACTORS**

We believe the imminent risks to our financial performance in the second half of 2014 (“H2 2014”) are as follows:

##### **The global economy**

Although the economy of United States of America (“US”) remains on track and the fear of slower growth in China has, to some extent, faded, the recovery in Euro zone is still fragile. More recent political tensions have been dragged into the fray posing a risk to the global economy. If these risk factors do not subside, the brighter outlook for the chemical industry, as envisaged now, may not materialise. This will then have an impact on our business.

##### **Volatility in energy prices**

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

##### **Currency risk**

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

##### **Interest rate risk**

Our interest rate risk arises from bank borrowings at floating rates. Much has been debated over when the US will start to hike interest rates. Any drastic increase in market interest rates will increase our borrowing cost.

### **Credit risk**

Our products are sold to more than 1,000 customers across many countries. The credit risks in some countries are more difficult to assess. Any significant payment default will negatively impact on our financial performance.

### **Country risk**

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

### **Inventory Risk**

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

## **PROSPECTS**

Megachem did well to register year-on-year growth in sales revenue in H1 2014 but political unrest in Thailand put a blemish on our results.

Though the military coup has provided some temporary relief, the political impasse remains unresolved and as such there is no certainty that the performance of our associated company in Thailand will be better in H2 2014.

At the macro-economic level, fear of China's economic growth decelerating has abated while the US economic growth is back on track after a rough start to the year. However, concern over Europe's fragile economy has resurfaced.

Economic uncertainties inevitably lead to currency volatility which may have an impact on our performance.

While Megachem sees a sluggish and volatile business environment, we remain firm in achieving our long-term business goals of building stable and sustainable long term growth around our twin pillars of growth in distribution and contract manufacturing. In our distribution business, we will leverage on our strong network to pursue organic growth within our existing markets. As for our manufacturing activities, we now have the capability and the infrastructure capable of meeting customers' diverse and changing needs. The execution of this strategy is still work-in-progress and the benefits will not be immediately visible.

## **11. Dividend**

### **(a) Current financial period reported on**

Any interim dividend declared for the financial period ended? Yes

The directors are pleased to declare an interim tax exempt dividend of 0.3 cent per share in respect of the financial period ended 30 June 2014 as follows:

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

**(b) Corresponding period of the immediately preceding financial year**

Any dividend declared for the immediately preceding financial period ended 30 June 2013? Yes

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

**(c) Date payable**

The interim tax exempt dividend of 0.3 cent per share in respect of the financial period ended 30 June 2014 will be paid on 30 September 2014.

**(d) Books closure date**

The Transfer Books and Register of Members of the Company will be closed on 12 September 2014 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 11 September 2014 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 11 September 2014 will be entitled to the payment of the proposed dividend.

Payment of the interim tax exempt dividend of 0.3 cent per share will be made on 30 September 2014.

## 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 2014 under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions during the financial period ended 30 June 2014 conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
Transportation services rendered by Ipem Automation Sdn. Bhd, a company owned by associates of Mr Chew Choon Tee, a director of Megachem Group	(Note 1)	Nil (Note 4)
Sales of products to Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations	(Note 2)	Nil (Note 4)
Purchase of products from Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations	(Note 2)	Nil (Note 4)
Purchase of products from SPCI Pte Ltd, a company of which Dr Tay Kin Bee is also a director	(Note 3)	Nil (Note 4)

Note 1 : The Group entered into interested person transactions amounting in aggregate to S\$65,220 and each transaction was below S\$100,000 which fell outside the scope of Rule 920.

Note 2 : The Group entered into sales and purchase transactions amounting to nil and S\$22,657 respectively and each transaction was below S\$100,000 which fell outside the scope of Rule 920.

Note 3 : The Group entered into purchase transactions amounting to S\$63,964 and each transaction was below S\$100,000 which fell outside the scope of Rule 920.

Note 4 : There was no prior shareholders' mandate obtained for the interested person transactions.

### 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 (the "Company"), 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 2014 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

11 August 2014