



## MEGACHEM LIMITED

Un-audited Financial Statements and  
Dividend Announcement

For The Half Year Ended  
30 June 2012

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## UNAUDITED RESULTS FOR THE HALF-YEAR ENDED 30 JUNE 2012

The directors of Megachem Limited are pleased to advise the following unaudited results of the Group for the half year ended 30 June 2012.

### 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 2012

	For the half year ended 30 June 2012 S\$	For the half year ended 30 June 2011 S\$	Variance Favourable/(Unfavourable)	
			S\$'000	%
Sales	54,040,817	57,258,099	(3,217)	(5.6%)
Cost of sales	<u>(42,897,969)</u>	<u>(45,612,693)</u>	2,715	6.0%
<b>Gross profit</b>	<b>11,142,848</b>	<b>11,645,406</b>	<b>(503)</b>	<b>(4.3%)</b>
Other operating income	228,459	48,894	180	367.3%
Distribution costs	(5,460,055)	(5,009,701)	(450)	(9.0%)
Administrative expenses	(2,142,631)	(2,127,346)	(15)	(0.7%)
Other operating expenses	(1,721,065)	(1,163,880)	(557)	(47.9%)
Finance costs	(163,846)	(138,937)	(25)	(17.9%)
Share of profit of associated companies	691,690	581,786	110	18.9%
<b>Profit before income tax</b>	<b>2,575,400</b>	<b>3,836,222</b>	<b>(1,261)</b>	<b>(32.9%)</b>
Income tax expense	<u>(518,833)</u>	<u>(793,322)</u>	274	34.6%
<b>Net profit</b>	<b>2,056,567</b>	<b>3,042,900</b>	<b>(986)</b>	<b>(32.4%)</b>
Other comprehensive income:				
Exchange differences on translating foreign operations, net of tax	(475,626)	(671,723)	196	(29.2%)
<b>Total comprehensive income</b>	<b>1,580,941</b>	<b>2,371,177</b>	<b>(790)</b>	<b>(33.3%)</b>
Net profit attributable to:				
Equity holders of the Company	1,903,452	2,968,086	(1,065)	(35.9%)
Non-controlling interests	153,115	74,814	78	104.7%
<b>Net profit</b>	<b>2,056,567</b>	<b>3,042,900</b>	<b>(986)</b>	<b>(32.4%)</b>
Total comprehensive income attributable to:				
Equity holders of the Company	1,436,955	2,314,238	(877)	(37.9%)
Non-controlling interests	143,986	56,939	87	152.9%
<b>Total comprehensive income</b>	<b>1,580,941</b>	<b>2,371,177</b>	<b>(790)</b>	<b>(33.3%)</b>
Earnings per share of profit attributable to equity holders of the Company during the financial period				
- basic and diluted	<b>1.43 cents</b>	<b>2.23 cents</b>		

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

	For the half year ended 30 June 2012 S\$	For the half year ended 30 June 2011 S\$
<u>Other operating income</u>		
Bad debt recovered	175,554	11,948
Change in fair value of financial assets held for trading	2,890	6,302
Gain on disposal of property, plant and equipment	9,280	4,556
Grant income	-	1,582
Interest income from banks	24,548	12,620
Management fees	12,271	11,886
Rental income	3,916	-
	<b>228,459</b>	<b>48,894</b>
Change in fair value of financial assets held for trading		
- forward foreign exchange contracts	2,890	6,302
Change in fair value of financial assets held for trading		
- listed equity security	(5,500)	(37,500)
Change in fair value of financial liabilities held for trading		
- forward foreign exchange contracts	(47,199)	(24,625)
Depreciation and amortisation	(465,568)	(343,336)
Interest on borrowings	(163,846)	(138,937)
Impairment of trade receivables	(79,889)	(49,612)
Net foreign exchange loss	(320,687)	(149,358)
Write off of inventory	(77,532)	(121,426)
Adjustment for over/(under) provision for tax in respect of prior financial years	22,112	(2,351)

**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 2012**

	<u>Group</u>		<u>Company</u>	
	30 June 2012 S\$	31 December 2011 S\$	30 June 2012 S\$	31 December 2011 S\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and bank balances	7,438,546	7,612,909	1,789,551	1,640,648
Trade and other receivables	24,873,287	22,331,381	16,144,110	14,959,164
Inventories	20,573,551	21,248,675	10,841,644	12,654,372
Financial assets held for trading	42,890	47,359	40,000	46,584
Other current assets	3,327,633	2,514,188	702,372	511,407
	<b>56,255,907</b>	<b>53,754,512</b>	<b>29,517,677</b>	<b>29,812,175</b>
<b>Non-current assets</b>				
Transferable club memberships	31,623	32,512	4,001	4,001
Investment in associated companies	5,113,191	4,567,059	99,949	99,949
Investments in subsidiaries	-	-	4,984,251	4,984,251
Investment property	118,318	125,011	-	-
Property, plant and equipment	11,047,320	9,016,068	1,775,369	1,714,184
	<b>16,310,452</b>	<b>13,740,650</b>	<b>6,863,570</b>	<b>6,802,385</b>
<b>Total assets</b>	<b>72,566,359</b>	<b>67,495,162</b>	<b>36,381,247</b>	<b>36,614,560</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	12,589,307	10,997,636	4,709,706	5,850,929
Current income tax liabilities	384,368	436,620	176,550	174,020
Borrowings	14,305,117	10,645,539	10,769,735	9,379,845
Financial liabilities held for trading	47,199	8,338	9,524	-
	<b>27,325,991</b>	<b>22,088,133</b>	<b>15,665,515</b>	<b>15,404,794</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	-	41,232	-	-
Borrowings	4,350,000	4,700,000	-	-
	<b>4,350,000</b>	<b>4,741,232</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>31,675,991</b>	<b>26,829,365</b>	<b>15,665,515</b>	<b>15,404,794</b>
<b>NET ASSETS</b>	<b>40,890,368</b>	<b>40,665,797</b>	<b>20,715,732</b>	<b>21,209,766</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	(2,339,027)	(1,872,530)	-	-
Retained earnings	25,485,390	24,914,938	4,823,704	5,317,738
	<b>39,038,391</b>	<b>38,934,436</b>	<b>20,715,732</b>	<b>21,209,766</b>
<b>Non-controlling interests</b>	<b>1,851,977</b>	<b>1,731,361</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>	<b>40,890,368</b>	<b>40,665,797</b>	<b>20,715,732</b>	<b>21,209,766</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 2012		As at 31 December 2011	
Secured	Unsecured	Secured	Unsecured
S\$1,887,674	S\$12,417,443	S\$965,694	S\$9,679,845

Amount repayable after one year

As at 30 June 2012		As at 31 December 2011	
Secured	Unsecured	Secured	Unsecured
S\$4,350,000	-	S\$4,700,000	-

## 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;
- (ii) motor vehicles of a subsidiary; and
- (iii) 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 2012**

	For the half year ended 30 June 2012 S\$	For the half year ended 30 June 2011 S\$
<b>Cash flows from operating activities</b>		
Net profit	2,056,567	3,042,900
Adjustments for:		
Change in fair value of financial assets held for trading	5,500	37,500
Depreciation	465,568	343,336
Gain on disposal of property, plant and equipment	(9,280)	(4,556)
Share of profit of associated companies	(691,690)	(581,786)
Income tax expense	518,833	793,322
Interest income	(24,548)	(12,620)
Interest expense	163,846	138,937
Operating cash flow before working capital changes	2,484,796	3,757,033
Change in operating assets and liabilities		
Trade and other receivables	(3,181,580)	(2,055,928)
Inventories	675,124	(3,204,548)
Financial assets held for trading	(1,031)	21,177
Trade and other payables	1,314,975	202,566
Financial liabilities held for trading	38,861	13,194
Foreign exchange adjustment differences	(174,898)	(225,666)
Cash from operations	1,156,247	(1,492,172)
Income tax paid	(823,879)	(490,530)
Interest received	24,548	12,620
<b>Net cash from/(used in) operating activities</b>	<b>356,916</b>	<b>(1,970,082)</b>
<b>Cash flows from investing activities</b>		
Dividend received	85,925	-
Partial payment for purchase of property, plant and equipment	(58,799)	(442,600)
Purchase of property, plant and equipment	(2,261,769)	(280,016)
Proceeds from sale of property, plant and equipment	20,629	4,556
<b>Net cash used in investing activities</b>	<b>(2,214,014)</b>	<b>(718,060)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(1,333,000)	(933,100)
Dividends paid by subsidiaries to non-controlling shareholders	(23,370)	(58,624)
Proceeds from borrowings	1,773,715	4,195,830
Proceeds from short term bank loans	1,598,410	772,865
Repayment of long term bank loans	(50,000)	-
Repayment of finance lease liability	(6,219)	(7,596)
Interest paid	(163,311)	(125,874)
<b>Net cash from financing activities</b>	<b>1,796,225</b>	<b>3,843,501</b>
<b>Net increase in cash and cash equivalents held</b>	<b>(60,873)</b>	<b>1,155,359</b>
Cash and cash equivalents at beginning of the financial period	7,612,909	6,767,092
Effects of exchange rate changes on cash and cash equivalents	(113,490)	(98,712)
<b>Cash and cash equivalents at end of the financial period</b>	<b>7,438,546</b>	<b>7,823,739</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 year.

## STATEMENTS OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2012

	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>						
<b>Balance at 1 January 2012</b>	40,665,797	38,934,436	15,892,028	(1,872,530)	24,914,938	1,731,361
Total comprehensive income for the financial period	1,580,941	1,436,955	-	(466,497)	1,903,452	143,986
Final dividend relating to FY2011 paid	(1,356,370)	(1,333,000)	-	-	(1,333,000)	(23,370)
<b>Balance at 30 June 2012</b>	<b>40,890,368</b>	<b>39,038,391</b>	<b>15,892,028</b>	<b>(2,339,027)</b>	<b>25,485,390</b>	<b>1,851,977</b>
<b>Balance at 1 January 2011</b>	37,649,428	36,079,908	15,892,028	(1,204,489)	21,392,369	1,569,520
Total comprehensive income for the financial period	2,371,177	2,314,238	-	(653,848)	2,968,086	56,939
Final dividend relating to FY2010 paid	(991,724)	(933,100)	-	-	(933,100)	(58,624)
<b>Balance at 30 June 2011</b>	<b>39,028,881</b>	<b>37,461,046</b>	<b>15,892,028</b>	<b>(1,858,337)</b>	<b>23,427,355</b>	<b>1,567,835</b>
<u>The Company</u>						
<b>Balance at 1 January 2012</b>	21,209,766	15,892,028	5,317,738			
Total comprehensive income for the financial period	838,966	-	838,966			
Final dividend relating to FY2011 paid	(1,333,000)	-	(1,333,000)			
<b>Balance at 30 June 2012</b>	<b>20,715,732</b>	<b>15,892,028</b>	<b>4,823,704</b>			
<b>Balance at 1 January 2011</b>	20,257,232	15,892,028	4,365,204			
Total comprehensive income for the financial period	1,123,079	-	1,123,079			
Final dividend relating to FY2010 paid	(933,100)	-	(933,100)			
<b>Balance at 30 June 2011</b>	<b>20,447,211</b>	<b>15,892,028</b>	<b>4,555,183</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 current financial period reported on.

There were no unissued shares of the Company under option and treasury shares as at the end of 30 June 2012 and 31 December 2011.

There were no treasury shares of the Company as at the end of 30 June 2012 and 30 June 2011.

**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 30 June 2012 and 31 December 2011 were 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 year ended 31 December 2011.

**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 2012, the Group adopted the new and revised FRS and Interpretations to FRS (INT FRS) that are relevant to its operations and mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective FRS and INT FRS.

The adoption of the above amendments has no material impact on the Group's financial statements.

**6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

	<b>For the half year ended 30 June 2012</b>	<b>For the half year ended 30 June 2011</b>
Earnings per ordinary share (in cents)		
a) Based on weighted average number of ordinary shares in issue	<b>1.43</b>	2.23
b) On a fully diluted basis	<b>1.43</b>	2.23
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 period reported on; and**  
**(b) immediately preceding financial year.**

	<b>30 June 2012</b>	<b><u>Group</u> 31 December 2011</b>	<b>30 June 2012</b>	<b><u>Company</u> 31 December 2011</b>
Net asset value per ordinary share based on issued share capital (cents)	<b>29.29</b>	29.21	<b>15.54</b>	15.91
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 2012	H2 2011	H1 2011	Variance H1 2012 vs H2 2011		Variance H1 2012 vs H1 2011	
				Fav/(Unfav)	%	Fav/(Unfav)	%
Sales (S\$'mil)	54.0	49.6	57.3	4.4	8.9%	(3.2)	(5.6%)
Gross profit (S\$'mil)	11.1	10.5	11.6	0.7	6.2%	(0.5)	(4.3%)
Gross profit margin	20.6%	21.2%	20.3%	(0.6% pts)	na	0.3% pts	na
Total expenses and finance cost (S\$'mil)	9.5	8.6	8.4	(0.9)	(10.3%)	(1.0)	(12.4%)
Other operating income (S\$'000)	228	120	49	109	90.8%	180	367.3%
Share of profit of associated companies (S\$'000)	692	444	582	248	55.8%	110	18.9%
Net profit before tax (S\$'mil)	2.6	2.5	3.8	0.1	5.0%	(1.3)	(32.9%)
Net profit after tax (S\$'mil)	2.1	2.0	3.0	-	0.7%	(1.0)	(32.4%)
Net profit after tax margin	3.8%	4.1%	5.3%	(0.3% pts)	na	(1.5% pts)	na
Earnings per share attributable to the equity holders of the Company (cents)	1.43	1.42	2.23	0.01	0.7%	(0.8)	(35.9%)
Annualised return on equity (ROE)	9.8%	9.7%	15.8%	0.1% pts	na	(6.0% pts)	na

Balance Sheet Highlights	Half year ended			Variance	
	30 June 2012	31 December 2011	30 June 2011	30 June 2012 vs 31 December 2011	30 June 2012 vs 30 June 2011
				Fav/(Unfav)	Fav/(Unfav)
Cash (S\$'mil)	7.4	7.6	7.8	(0.2)	(0.4)
Borrowings (S\$'mil)	18.7	15.3	14.7	(3.3)	(4.0)
Current ratio	2.06	2.43	2.17	(0.37)	(0.11)
Gearing ratio	0.48	0.39	0.39	(0.09)	(0.09)
Net tangible assets per share attributable to equity holders of the Company (cents)	29.29	29.21	28.10	0.08	1.19
Inventory turnover (days)	95	106	84	11	(11)
Trade receivables turnover (days)	85	87	78	2	(7)

na : not applicable

## 8(a) PROFITABILITY ANALYSIS

### 8(a)(i) Sales

	For the half year ended 30 June 2012		For the half year ended 31 December 2011		Variance	Fav/(Unfav)
	S\$'000	%	S\$'000	%	S\$'000	%
ASEAN	35,992	66.6	32,294	65.1	3,698	11.5
North Asia	5,539	10.2	4,401	8.9	1,138	25.9
America	3,570	6.6	5,197	10.5	(1,627)	(31.3)
Europe	3,059	5.7	1,995	4.0	1,064	53.3
South Asia	2,467	4.6	2,699	5.4	(232)	(8.6)
Middle East	1,810	3.3	1,706	3.4	104	6.1
Australia	1,556	2.9	1,314	2.7	242	18.4
Africa	48	0.1	-	-	48	100.0
Total	54,041	100.0	49,606	100.0	4,435	8.9

	For the half year ended 30 June 2012		For the half year ended 30 June 2011		Variance	Fav/(Unfav)
	S\$'000	%	S\$'000	%	S\$'000	%
ASEAN	35,992	66.6	37,378	65.3	(1,386)	(3.7)
North Asia	5,539	10.2	6,654	11.6	(1,115)	(16.8)
America	3,570	6.6	3,386	5.9	184	5.4
Europe	3,059	5.7	2,537	4.4	522	20.6
South Asia	2,467	4.6	3,307	5.8	(840)	(25.4)
Middle East	1,810	3.3	2,284	4.0	(474)	(20.8)
Australia	1,556	2.9	1,712	3.0	(156)	(9.1)
Africa	48	0.1	-	0.0	48	100
Total	54,041	100.0	57,258	100.0	(3,217)	(5.6)

#### H1 2012 vs H2 2011

For the most part of the first half of 2012 ("H1 2012"), the uncertainties in the Euro zone, the sluggish growth in the United States of America ("US") and slower growth in China, the major drivers of the global economy, translated into a weaker demand for the chemical industry in general.

In the face of all these challenges, Megachem showed its resilience through growing our sales steadily with sales registering an increase of S\$4.4 million or 8.9% over second half of 2011 ("H2 2011"). Almost all of the market segments registered growth, led by European and North Asian (mainly China) markets despite the dark clouds casted over Europe region and China having reported the slowest growth rate over the last three years. Both Europe and North Asia sales grew by S\$1.1 million over H2 2011 or 53.3% and 25.9% respectively. ASEAN markets had also recovered moderately with sales increase of S\$3.7 million or 11.5% while Middle Eastern markets remained relatively stable.

America and South Asia were the two regions that contracted in H1 2012 vis-à-vis H2 2011. The decline in sales from South America for H1 2012 by S\$1.5 million or 30.4% was not surprising following a record high revenue contribution of S\$5.0 million in H2 2011. The South Asian markets dipped slightly by S\$0.2 million or 8.6% in line with the general economic conditions.

#### H1 2012 vs H1 2011

Compared to first half of 2011 ("H1 2011"), sales decreased marginally by S\$3.2 million or 5.6%. The decline was evident across all the regions except America, which were flat, and Europe which grew by S\$0.5 million or 20.6% despite worries over the debt crisis.

#### Custom-blending Activities

H1 2012 was a period of transition for our manufacturing division as our new manufacturing facilities were being constructed and existing facilities were migrated over to the new site. As such, due to disruptions to the operations, orders for custom-blending services had to be reduced. This resulted in lower sales contribution from our manufacturing division for H1 2012 by S\$0.3 million or 16.7% or S\$0.4 million or 20.0% as compared to H2 2011 and H1 2011 respectively.

	For the half year ended			Variance	Fav/(Unfav)	Variance	Fav/(Unfav)
	30 June 2012	31 December 2011	30 June 2011	H1 2012 vs H2 2011		H1 2012 vs H1 2011	
	S\$'000	S\$'000	S\$'000	S\$'000	%	S\$'000	%
Sales from manufacturing activities	1,495	1,795	1,868	(300)	(16.7%)	(374)	(20.0%)

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

##### H1 2012 vs H2 2011

Gross profit margin for H1 2012 dipped by 0.6%-points to 20.6% primarily due to lower sales contribution from higher margin South American market vis-à-vis China and European markets which commanded relatively lower margins as well as a decline in the gross profit margin from the manufacturing division as depreciation of plant and machinery for the new facilities commenced. As a result of the dip in gross profit margin, gross profit increased at a slower rate of 6.2% or S\$0.7 million compared to sales which improved by 8.9% as compared to H2 2011.

##### H1 2012 vs H1 2011

Year-on-year, gross profit margin was marginally better in H1 2012 by 0.3%-points as the sales contributions from the various markets were comparable to that in 2011. Hence, this softened the adverse impact brought about by lower sales with overall gross profit declining by S\$0.5 million or 4.3%.

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

##### H1 2012 vs H2 2011

Other operating income increased significantly by S\$109,000 or 90.8% compared to H2 2011 largely due to higher bad debt recovered of S\$122,000 mainly from customers in China and Malaysia.

##### H1 2012 vs H1 2011

Similarly, higher bad debt recovered from customers in China and Malaysia resulted in the jump in other operating income of S\$180,000 or more than four times as compared to H1 2011.

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

##### H1 2012 vs H2 2011

Total operating expenses, which consist of distribution, administrative and other operating expenses, for H1 2012 amounted to S\$9.3 million which represented an increase of S\$0.9 million or 10.2% as compared to H2 2011.

The increase was attributable mainly to four types of costs as follows:

	For the half year ended 30 June 2012 S\$'000	For the half year ended 31 December 2011 S\$'000	Variance Fav/(Unfav) S\$'000	%
Change/(reversal) in fair value of financial liabilities held for trading – foreign exchange contracts	47	(16)	(63)	(389.8%)
Depreciation of property, plant and equipment	389	308	(80)	(26.0%)
Employee compensation	5,110	4,626	(484)	(10.5%)
Net foreign exchange loss	321	149	(171)	(114.8%)
Transport charges	283	189	(94)	(49.5%)

Annual salary increment and increase in headcount in our new Australian operation were the main reasons behind the increase in employee remuneration for H1 2012 compared to H2 2011.

Foreign exchange fluctuations, especially in respect of the Indian Rupees and the United State Dollars ("USD") had adversely impacted profitability. While the Indian Rupees continued to weaken against the USD, albeit at slower rate than the last quarter of 2011, the USD also depreciated against our reporting currency Singapore Dollar ("SGD") in H1 2012. In H2 2011, the depreciation of Indian Rupees was much steeper but USD was stronger then against SGD. The dual unfavourable movements accounted for the higher net foreign exchange loss incurred in H1 2012.

With the acquisition of the new factory building towards the end of last year, the depreciation charge started to kick in this year, resulting in higher depreciation of property, plant and equipment of S\$0.1 million.

#### H1 2012 vs H1 2011

Vis-à-vis H1 2011, total operating expenses were also higher by S\$1.0 million or 12.3% in H1 2012.

The main variances in the operating expenses were as follows:

	<b>For the half year ended 30 June 2012 S\$'000</b>	<b>For the half year ended 30 June 2011 S\$'000</b>	<b>Variance Fav/(Unfav) S\$'000</b>	<b>%</b>
Change in fair value of financial liabilities held for trading – foreign exchange contracts	<b>47</b>	25	(23)	(91.7%)
Depreciation of property, plant and equipment	<b>389</b>	343	(45)	(13.2%)
Employee compensation	<b>5,110</b>	4,800	(310)	(6.4%)
Net foreign exchange loss	<b>321</b>	149	(171)	(114.7%)
Professional fees	<b>333</b>	211	(123)	(58.2%)
Transport charges	<b>283</b>	182	(101)	(55.3%)
Travelling and transport expenses	<b>404</b>	411	7	1.7%
Rental for operating leases	<b>883</b>	801	(81)	(10.1%)

The increase in depreciation of property, plant and equipment and employee compensation in H1 2012 were for the same reasons as stated above.

While the net foreign exchange loss incurred in H1 2011 was also mainly due to the weakening of USD against SGD, the additional effect from depreciating Indian Rupees against USD caused the net foreign exchange loss for H1 2012 to be more than double from the same period last year.

The increase in professional fees in H1 2012 was basically due to consultancy and engineering services rendered during the construction of the new facilities, tax consultancy services for one of our subsidiaries and services incurred for the new Australian set up.

The higher rental incurred in H1 2012 was partially due to rent for the new factory building, rent for new office in Australia as well as general increase in rental charges for warehouses.

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

##### H1 2012 vs H2 2011 and H1 2012 vs H1 2011

Finance costs comprised the following:-

	For the half year ended 30 June 2012 S\$'000	For the half year ended 31 December 2011 S\$'000	For the half year ended 30 June 2011 S\$'000
Finance costs			
Bills payable to banks	93	120	97
Hire purchase	-	3	4
Short term bank loans	30	23	38
Long term bank loan	41	-	-
	<b>164</b>	<b>146</b>	<b>139</b>

As compared to H2 2012 and H1 2011, finance costs increased by S\$17,000 or 11.9% and S\$25,000 or 17.9% respectively primarily due to the interest paid to finance the new factory building acquired end of 2011 via a long term bank loan.

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

##### H1 2012 vs H2 2011 and H1 2012 vs H1 2011

The post-flood recovery in the Thai economy had been unexpectedly well, reviving production and domestic consumption. This led to better performance from our associated companies with share of profit of associated companies reported a steadfast growth of S\$0.2 million or 55.8% over H2 2011. As compared to H1 2011, the growth was slower at S\$0.1 million or 18.9%.

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

##### H1 2012 vs H2 2011

Though sales were higher in H1 2012, the lower gross profit margin coupled with higher operating expenses and net foreign exchange loss eroded the contribution to profit before tax. On the other hand, higher bad debt recovered and better performance from our associated companies boosted profit before tax.

As a result of this mix of factors, our profit before income tax for H1 2012 increased marginally by S\$0.1 million or 5.0% compared to H2 2011.

##### H1 2012 vs H1 2011

Compared against H1 2011, net profit before tax was significantly lower by S\$1.3 million or 32.9% due to lower sales and gross profit, higher operating expenses and net foreign exchange loss.

#### 8(a)(viii) Net profit for the year attributable to the equity holders of the Company

Consistent with the above, profit for the half year attributable to the equity holders of the Company was flat as compared to H2 2011 while it declined by S\$1.1 million or 35.9% vis-à-vis H1 2011, which was a record half-yearly profit so far.

## 8(b) BALANCE SHEET ANALYSIS

### Property, plant and equipment

With the construction of the new manufacturing facilities nearing completion, property, plant and equipment as at 30 June 2012 increased by S\$2.0 million or 22.5% as compared to the value as at 31 December 2011.

### Associated companies

As the contribution from our associated companies was positive in H1 2012, the carrying value of our investment increased consequentially by S\$0.5 million or 12.0%.

### Trade receivables

In line with higher sales in H1 2012 as compared to H2 2011, third party trade receivables increased by S\$2.6 million or 12.1% from S\$21.8 million as at 31 December 2011 to S\$24.4 million as at 30 June 2012. Turnover days for H1 2012 at 85 days was relatively flat as compared to H2 2011 although it deteriorated slightly as compared to 78 days for H1 2011.

### Inventory and trade and other payables

Inventory purchases normalized in H1 2012 after a period of aggressive stocking in H1 2011 following the natural disaster in Japan and reduced purchases in H2 2011 in anticipation of slower demand. With higher sales in H1 2012, inventory value declined by S\$0.7 million or 3.2% from S\$21.2 million as at 31 December 2011 to S\$20.6 million as at 30 June 2012. Turnover day for H1 2012 also improved to 95 days vis-à-vis 106 days for H2 2011 although it was still higher than the average 91 days for the last financial year due to the spill over effect from inventory built up in H1 2011.

Trade and other payables increased by S\$1.6 million or 14.5% from S\$11.0 million as at 31 December 2011 to S\$12.6 million as at 30 June 2012 mainly due to two reasons. Firstly, inventory purchases in H1 2012 being higher than H2 2011 caused trade payables to increase by S\$0.9 million or 15.9%. Secondly, sundry payables to equipment suppliers for our new manufacturing facilities accounted for S\$0.5 million as at 30 June 2012.

### Other current assets

Other current assets increased by S\$0.8 million or 32.4% compared to the value as at 31 December 2011 primarily due to S\$0.5 million higher advance payments to suppliers for inventory purchases and higher prepaid operating expenses of S\$0.3 million.

### Financial assets and financial liabilities held for trading

There was no significant variance for financial assets held for trading as at 30 June 2012 and 31 December 2011. The increase in financial liabilities held for trading of S\$39,000 or more than five times was mainly due to unfavourable change in fair value of foreign exchange contracts.

### Borrowings

As a result of financing for our new manufacturing facilities and higher inventory purchases as explained above, total borrowings increased by S\$3.3 million or 21.6% since 31 December 2011. Gearing ratio also increased from 0.39 times to 0.48 times although it is still considered to be a manageable level.

	As at 30 June 2012 S\$'000	As at 31 December 2011 S\$'000
Bills payables	9,437	7,670
Hire purchase obligation	5	12
Short term bank loans	4,263	2,664
Long term bank loans	4,950	5,000
Total borrowings	<b>18,655</b>	<b>15,346</b>



#### Net asset value

Net asset value per share increased marginally from 29.21 cents as at 31 December 2011 to 29.29 cents as at 30 June 2012 primarily due to net profit achieved for H1 2012 offset by payment of dividend amounting to S\$1.3 million and unfavourable currency translation reserve of S\$0.5 million that resulted mainly from weakening of the Thai Baht and Malaysian Ringgit.

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

Positive operating cash flow of S\$0.4 million was generated in H1 2012. Major cash outflows for H1 2012 were payments for the purchase of plant and equipment of S\$2.3 million and payment of dividend of S\$1.3 million. These cash requirements were primarily financed by bank borrowings. As a result, cash and cash equivalent decreased marginally by S\$0.2 million or 2.3%.

#### **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 2011 dated 21 February 2012, we reported that due to the close correlation of our business to the global economy, any further deterioration in the external environment will have an impact on our business prospect. However, as our business model bears certain extent of resilience to such adversity, we remained profitable in H1 2012. The results for H1 2012 were thus in line with our prospect statement.

#### **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 2012 ("H2 2012") are as follows:

##### **Uncertainty in the global economy**

The fallout from the Europe debt crisis, weak US economy and slower growth in China may lead to a fall in demand for chemicals and thus may adversely affect our business.

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

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

##### **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. 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 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 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.

**PROSPECTS**Outlook for H2 2012

Going into the remaining half of the year, it appears that the problems in Europe will persist and the US economic recovery will also be sluggish. The state of the global economy is exacerbated by slower growth in China. The outlook of the global economy therefore continues to be uncertain. Given the chemical industry's sensitivity to economic activities, any further deterioration in the external environment may have an impact on our business prospects for H2 2012. However, the extent of the repercussions on our results for H2 2012 is difficult to ascertain at this juncture.

Long term prospects

Our key growth strategy remains focused on leveraging on our strong Asian network to drive growth in the distribution division of our business and to accelerate our chemical contract manufacturing business following the expansion of our production capacity.

Despite the ongoing challenges in the external environment, we are confident that our current business strategy will deliver sustainable growth in the long term.

## 11. Dividend

### (a) Current financial period reported on

Any interim dividend declared for the financial period ended? Yes

The directors are pleased to recommend an interim dividend in respect of the financial period ended 30 June 2012 as follows:

Name of dividend : Interim tax exempt

Type of dividend : cash

Dividend amount per share (cents) : 0.3 cents per share

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

The directors recommended an interim dividend in respect of the financial period ended 30 June 2011 as follows:

Name of dividend : Interim tax exempt

Type of dividend : cash

Dividend amount per share (cents) : 0.3 cents per share

Payment date : 30 September 2011

### (c) Date payable

Payment of the interim tax exempt dividend of 0.3 cents per share will be made on 28 September 2012.

### (d) Books closure date

NOTICE IS HEREBY GIVEN that the Transfer Books and Register of Members of the Company will be closed on 12 September 2012 for the purpose of determining members' 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 business division of Tricor Singapore Pte Ltd), 8 Cross Street, #11-00 PWC Building, Singapore 048424, up to 5.00 pm on 11 September 2012 will be registered to determine members' entitlements 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 5.00 pm on 11 September 2012 will be entitled to the payment of the proposed dividend.

## 12. Interested Person Transactions

Name of interested person	Aggregate value of all interested person transactions during the financial period ended 30 June 2012 under review (excluding transactions less than S\$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 2012 conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$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 2)

Note 1 : The Group has entered into interested person transactions amounting to S\$82,059 and each transaction was below S\$100,000 which fell outside the scope of Rule 920.

Note 2 : The Company does not have a general interested person transaction mandate.

**Negative assurance confirmation on interim financial results under SGX Listing Rule 705(5) of the SGX Listing Manual, Section B: Rules of Catalist**

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 2012 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

8 August 2012

This announcement has been prepared by the Company and the contents have been reviewed by the Company's Sponsor, SAC Capital Private Limited, 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.

The contact person for the Sponsor is Mr Bernard Lim (tel : (65) 6221 5590) at 79 Anson Road, #15-03, Singapore 079906.