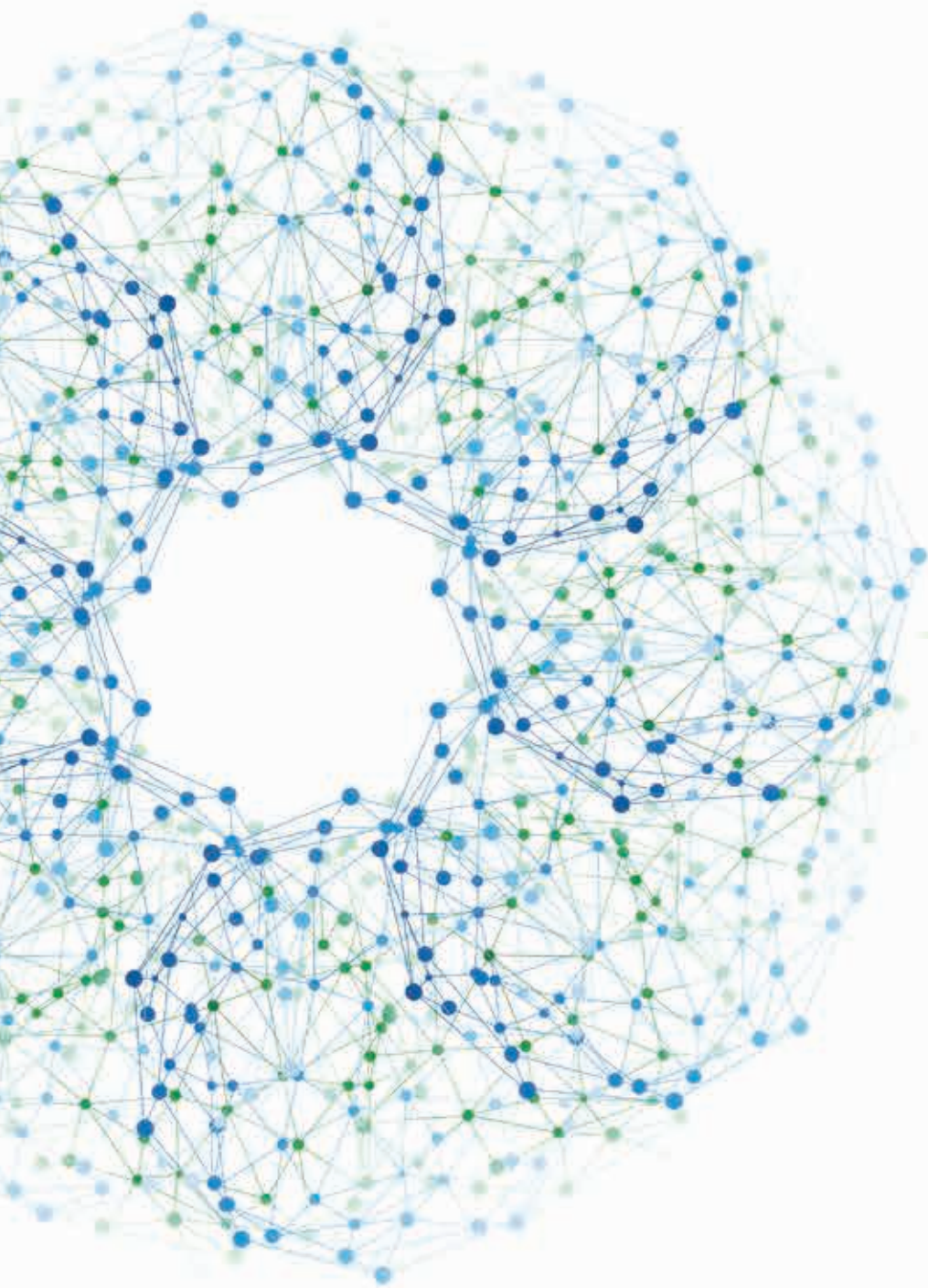


A R 1 7

**30 YEARS**

**DEVELOPING SUSTAINABLE CHEMISTRY**



# 30 YEARS DEVELOPING SUSTAINABLE CHEMISTRY

A REACTION OF OUR VISION, A ROBUST BUSINESS STRATEGY, SOUND FINANCIAL FUNDAMENTALS, CATALYZED BY A PASSION FOR EXCELLENCE AND VALUE CREATION AS WELL AS OUR COMMITMENT TOWARDS CORPORATE GOVERNANCE AND SUSTAINABILITY, ALL WITH AN AIM OF PRESERVING AND ENHANCING THE INTEREST OF OUR STAKEHOLDERS.

ALL THESE ELEMENTS CREATE A CHEMISTRY THAT IS  
VIABLE AND SUSTAINABLE -

MEGACHEM'S SUSTAINABLE CHEMISTRY.

# OUR 30 YEARS JOURNEY



**1988**

Megachem's Journey began on 12 September 1988 in Singapore as a distributor of chemicals.

**1989**

Within a year of operation we expanded into the Malaysian market.

**1992**

We acquired 49% of Megachem Thailand Co Ltd.

**1993**

Success in Singapore, Malaysia, Thailand led us to expand further into Indonesia.

**1994**

We moved to our own 46,000 sf office/warehouse in Tuas.



**1999**

We expanded our geographical footprint further with a presence in Philippines.

We establish our own quality control and applications laboratory to provide quality control and technical support to our customers.

**2000**

To tap into the rapidly growing China market, we set up a subsidiary in Shanghai.

In the same year, we ventured into the European market with a presence in UK.

**2001**

At the turn of the new millennium, we made our foray into manufacturing with an objective of transforming Megachem into an integrated specialty chemical business.



**2003**

In October Megachem moved itself to the bigger stage with the listing of its shares in the Singapore Stock Exchange-SESDAQ, now known as the Catalist. The public share issue received overwhelming response with oversubscription of 472 times. Its shares commenced trading on 17 October 2003.

**2004**

In 2004, a representative office was set up in Vietnam to tap on the potential in the Vietnam market.

**2005**

India liaison office was set up as part of strategy to establish a global market.

With a plan to penetrate the China market further, a branch office was set up in Beijing.

## OUR 30 YEARS JOURNEY

**2008**

The establishment of our subsidiary in Dubai, UAE demonstrated our commitment towards building a global network.

Megachem celebrated its 20 years in business with a record year of sales revenue.

**2009**

Megachem emerged from the US financial crisis with record level sales in FY 2009.

We converted our liaison office in India to a subsidiary as we positioned ourself for further growth.

**2010**

Megachem's achieved record sales and profit for FY 2010.

Our representative office in Vietnam was converted to a wholly-owned subsidiary to strengthen our footprint there.

**2011**

We purchased another industrial building in Singapore to develop our manufacturing activities as an engine of growth.

Establishment of a subsidiary in Australia further expanded Megachem's geographic footprint.

Megachem delivered yet another year of record sales and profit for FY 2011. Sales surpassed S\$100 million mark for the first time.

**2012**

Completion of the expansion of our production facility in Singapore, laid the platform for accelerating growth in our manufacturing activities.

Megachem welcomed Chori, a leading Japanese trading group, as Shareholder and Partner. Both Chori and Megachem are expected to benefit from each other's synergistic capabilities in chemicals.

**2014**

As part of our effort to strengthen our logistical infrastructure, Megachem purchased a piece of industrial land in Malaysia which will lead to greater cost efficiency and enable us to serve our customers better.

**2015**

Megachem won 4 awards at the prestigious Singapore Corporate Awards.

**2016**

Megachem won 2 awards at the prestigious Singapore Corporate Awards.

**2017**

Megachem (Thailand) Public Company Limited made a successful IPO debut on the Stock Exchange of Thailand-Market for Alternative Investment. The listing marks a key milestone for the Group, and is aligned with our plans to expand our presence in Asia.

Megachem won the Best Annual Report Award (Gold) in the "less than \$300 million market capitalisation" category.

**2018**

**30<sup>th</sup> Anniversary – Celebrating past Successes. Shaping a better Future.**

# C O N T E N T S

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This annual report has been prepared by the Company and its 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 (the "Exchange"). The Company's Sponsor has not independently verified the contents of this annual report.

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

The contact person for the Sponsor is Mr Ong Hwee Li (Telephone: (65) 6532 3829) at 1 Robinson Road, #21-02 AIA Tower Singapore 048542.

# AT A GLANCE



SALES  
8.4% ↑



NET PROFIT  
88.1% ↑

COUNTRIES  
PRESENCE

11

NO OF CUSTOMERS  
>2000



PER SHARE  
FINAL DIVIDEND

0.7 CENTS

# CHAIRMAN'S MESSAGE

WE WILL PERSIST IN PURSUING A STRATEGIC APPROACH OF FURTHER DIVERSIFICATION OF OUR BUSINESS PORTFOLIO AND EXPANDING OUR GEOGRAPHICAL REACH, PRODUCT AND SERVICE OFFERINGS AS WELL AS CEMENTING STRONGER BUSINESS PARTNERSHIPS TO SOLIDIFY OUR POSITION IN THE MARKET.



## Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present to you Megachem Limited's ("Megachem", and together with its subsidiaries and associated companies, collectively the "Group") annual report for the financial year ended 31 December 2017 ("FY 2017").

### FY 2017: DELIVERING A RESILIENT PERFORMANCE AMIDST A CHALLENGING GLOBAL CLIMATE

In FY 2017, unstable economic and political climate seen in 2016 subsided, enabling our business activity momentum to pick up across our core market segment. Megachem's efforts to optimise its operations and grow its business have paid off, allowing it to achieve a better performance in FY 2017 for the Group. Our intensified marketing efforts have also led to an expansion of Megachem's portfolio of customers and products.

### IMPROVEMENT IN BOTTOM-LINE PERFORMANCE

For the year under review, our revenue saw a 8.4% increase to S\$108.1 million in FY 2017, as compared to S\$99.8 million in the previous corresponding financial year ("FY 2016"). This was largely due to stronger sales performances in markets such as ASEAN, Europe, Australia and Middle East operations, which more than offset lower sale performances from our North and South Asia and America markets.

Net profit before tax increased S\$1.6 million or 42.9% to S\$5.2 million from S\$3.6 million in FY 2016. This was mainly due to the one-time valuation gain arising from the listing of our associated company, higher gross profit, higher share of profit of associated companies and fair value gain from listed equity, which was partially offset by higher operating expenses. Excluding the one-off gain and further adjustment for allowance for impairment of trade receivables from Venezuela, the Group's net profit before tax would have remained fairly constant.

Our distribution business segment remained the largest contributor to our topline. Sales from our distribution activity was 9.5% higher year-on-year at S\$105.5 million while sales from our manufacturing segment decreased by 24.4% to S\$2.6 million in FY 2017.

During the financial year, the Group's gross profit expanded by 5.3% to S\$26.6 million, while gross profit margin dipped marginally by 0.7 percentage point in FY 2017 in line with lower gross profit margins in key markets and partly due to higher inventory write down in the current year.

In FY 2017, total operating expenses increased by S\$1.9 million or 8.4% to S\$24.2 million largely due to net foreign exchange losses and increase in staff costs on the back of an expansion in staff strength.

Correspondingly, EBITDA improved 22.0% to S\$6.8 million whilst net profit after tax rose 88.1% to S\$4.2 million in FY 2017 largely due to higher



## CHAIRMAN'S MESSAGE

sales and the one-off valuation gain arising from the listing of our associated company. Earnings per share rose 107.8% to 3.18 cents in FY 2017, in comparison to 1.53 cents in FY 2016.

Total borrowings increased from S\$15.3 million as at 31 December 2016 to S\$16.7 million as at 31 December 2017. Even though cash and cash equivalents dipped slightly by 2.2% from S\$11.6 million as at 31 December 2016 to S\$9.3 million as at 31 December 2017, our financial position continues to be sound and healthy.

As at 31 December 2017, the Group's gearing ratio is fairly consistent at 0.37 times as compared to 0.36 times in the previous year. Net asset value per share rose to 33.47 cents as at 31 December 2017, from 31.50 cents as at 31 December 2016.

### FOCUSING ON LONG-TERM GROWTH TO DELIVER SUSTAINABLE RETURNS TO OUR SHAREHOLDERS

Looking ahead, even though the global economic climate and chemical industry continues to be plagued by factors such as political uncertainties, tighter monetary policies, concerns over the after-effects of the Brexit referendum as well as the volatility in financial markets and China's economic transition, global economy is forecasted to remain on a positive growth path.

Megachem is a specialty chemical solutions provider with a wide base of customers across a diverse range of industries and geographical regions. Our business model of providing integrated value-added solutions has been tested and proven to be resilient and has served us well.

We envisage that the combination of a positive economic environment and a robust business model should provide the catalyst for us to fortify our business further provided the risks mentioned above do not materialise.

For the longer term, we will persist in pursuing a strategic approach of further diversification of our business portfolio and expanding our geographical reach, product and service offerings as well as cementing stronger business partnerships, to solidify our position in the market.

In terms of geographical regions, our Asia segment, which is a major contributor to the Group's revenue, remains a strategically important market for us. The specialty chemicals industry in Asia is one of the largest markets and we anticipate the growth to remain robust in the long-term. Backed by our solid track record in the industry and extensive network, we are well-poised to seize any opportunities that the markets may present. In addition, we intend to remain resilient by creating long-term sustainable values through a sound business model, financial discipline and operational excellence, which are a key foundation for our long-term growth.

### MAINTAINING TRANSPARENCY AND GOOD CORPORATE GOVERNANCE STANDARDS

For the year 2017, we were able to achieve another significant milestone by being accorded the Best Annual Report Award (Gold), in the "less than \$300 million market capitalisation" category at the 2017 Singapore Corporate Awards. Till date, Megachem has received at least one award in nine out of twelve years since the launch of the Singapore Corporate Awards in 2005. This is testament to the high standards which we adhere to for shareholders' communication and commitment towards achieving good corporate governance practices.

This is also the second year which we have incorporated Global Reporting Initiative ("GRI") standards for our Sustainability reporting. We acknowledge our responsibility to build a sustainable business and will continue to find ways to adopt good industry practices to ensure that sustainability objectives are met.

Even though the awards are testament to our continuous efforts to cultivating good corporate governance practices and fostering transparency within the organisation, it will further serve as a constant reminder for us to continually uphold good corporate governance standards and communication with our stakeholders in a transparent and timely manner.

### REWARDING OUR LOYAL SHAREHOLDERS

To show appreciation to our shareholders for the strong and continued support for Megachem, the Board has recommended a final dividend of 0.7 cent per share. Together with the interim dividend of 0.5 cent per share, the collective dividends of 1.2 cents per share represents a 37.7% payout ratio of Megachem's FY 2017 net profit.

### 30 YEARS DEVELOPING SUSTAINABLE CHEMISTRY

This year is Megachem's 30th Anniversary. With single-mindedness and unwavering passion, we have made our vision a reality. Our achievements over the last 30 years calls for celebration. More importantly it also calls for forward thinking because, without a doubt, greater future is ahead of us.

I would like to express my sincere gratitude to our management team, staff, bankers and business associates for their hard work and ongoing dedication over the past year in contributing to Megachem's continued growth. I would like to also thank my fellow directors for their counsel and professionalism in helping to position Megachem for its long-term success. Lastly, I would like to take this opportunity to thank all our loyal shareholders.

With the support from our stakeholders, we will continue to strive towards building a more sustainable specialty chemical business and enhancing shareholders' value in the near and long term.

### SIDNEY CHEW

*Executive Chairman & Managing Director  
Megachem Limited*

# OUR WORLD OF CHEMISTRY



## MAKING THE WORLD A BRIGHTER PLACE

### PERFORMANCE COATINGS AND POLYMERS

Paints and Inks  
Polymerisation  
Adhesives  
Construction

## DRIVING PERFORMANCE

### ADVANCED POLYMER COMPOSITES

Rubber  
Plastics  
Polyurethane  
Polyesters



## ENABLING TECHNOLOGIES

### SURFACE TECHNOLOGY

Electronics  
Metal Finishings  
Industrial Cleaning  
Water Treatment



## OUR WORLD OF CHEMISTRY

### NOURISHING OUR WELL-BEING

#### BIOTECH

Food and Beverages  
Pharmaceuticals  
Feeds  
Flavours/Fragrances  
Agriculture



### BRINGING VIBRANCY TO LIFE

#### LIFESTYLE

Personal Care  
Photographic  
Textiles



### ENERGISING THE WORLD

#### OIL AND GAS

Petrochemicals  
Lubricants and Grease  
Oil Fields  
Refinery



# OUR PROSPECTS



## GROWTH

- Leveraging Asia network for growth
- Strengthening key customers and suppliers relationships

## RESILIENCE

- Sound business model
- Improving operational excellence
  - Financial discipline

### 2018 OUTLOOK

#### Positive economic conditions + Robust Business Model => Impetus for Growth for 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 potential risk factors that may derail the growth outlook. These include geopolitical uncertainties, China's economic growth transition, tighter monetary policies, concerns over the fragility of the Euro zone arising from 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 in 2018 provided the risks factors listed above do not materialize. Moreover, having already made full impairment of our Venezuela receivables, 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.

# COMPANY PROFILE

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## YOUR TOTAL CHEMICAL SOLUTIONS PARTNER

ESTABLISHED IN 1988, MEGACHEM HAS SINCE EMERGED AS A LEADING CHEMICAL PLAYER IN SINGAPORE AND THE REGION. LISTED ON THE SINGAPORE STOCK EXCHANGE IN 2003, WE ARE TODAY A GLOBAL ONE-STOP SPECIALTY CHEMICAL SOLUTIONS PROVIDER, OFFERING INTEGRATED VALUE-ADDED SERVICES INCLUDING CONTRACT MANUFACTURING TAILORED TO CUSTOMERS' NEEDS AS WELL AS DISTRIBUTION OF SPECIALTY CHEMICALS. WE HAVE A GLOBAL PRESENCE AND DIVERSE CUSTOMER BASE FROM A WIDE SPECTRUM OF INDUSTRIES. OUR TECHNICAL CAPABILITIES, SUPPLY CHAIN INFRASTRUCTURE AND PROFESSIONAL TEAM SERVE TO ENSURE TOTAL CUSTOMER SATISFACTION.

# COMPANY PROFILE

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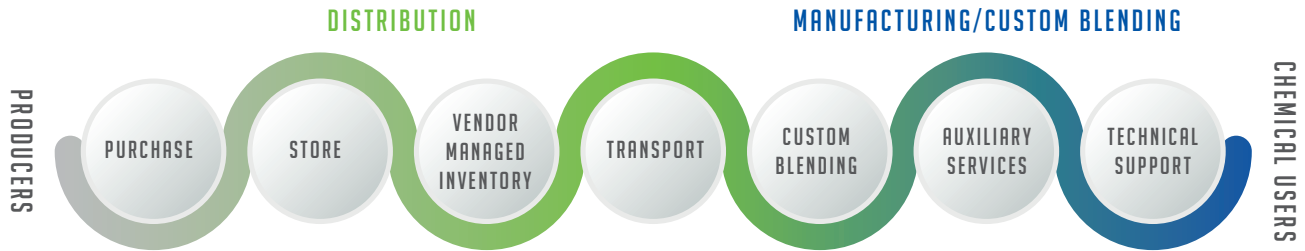
PROVIDING INTEGRATED  
VALUE-ADDED SOLUTIONS

SERVING YOU GLOBALLY  
WITH ONE-STOP SUPPLY  
OF SPECIALTY CHEMICALS



A PREMIUM PROVIDER  
OF CHEMICAL CONTRACT  
MANUFACTURING SERVICES

# OUR BUSINESS MODEL



## VALUE-ADDING IN THE CHEMICAL SUPPLY CHAIN



- Wide product portfolio – more than 1,000 types and grades of chemicals
- Global Sourcing Network - Europe, US, Japan, China, India
- Global Distribution Network – presence in 11 countries around the world
- Strong customer base – more than 2,000 customers
- Providing Just-in-Time delivery and Vendor-Managed Inventory Service

- Mixing and Blending according to customers' formulations
- Repackaging from bulk to smaller packaging
- Filling, packaging and labeling
- Technical support from dedicated application laboratories



# OUR GLOBAL FOOTPRINT

## CONNECTING TO THE WORLD OF OPPORTUNITIES

With an extensive global network and strategic locations in Asia, we are well-positioned to develop strategic relationships and forging winning formula in a challenging business landscape.



- Singapore
- Malaysia
- Indonesia
- China
- Thailand
- Middle East
- Philippines
- Australia
- Vietnam
- India
- UK



## OUR GLOBAL FOOTPRINT

---



## WHY MEGACHEM

MEGACHEM POSSESSES A SUITE OF COMPETITIVE ASSETS THAT WORK COGENTLY TOGETHER TO GIVE OUR CUSTOMERS A COMPELLING COMPETITIVE EDGE.



### OUR COMPETITIVE STRENGTHS, YOUR COMPETITIVE ADVANTAGES

**Every single element has to be exactly in place to create the desired formula for success and Megachem has been building this winning formula over the decades. Several vital ingredients make up this potent formula:**

**Our integrated solutions, superior manufacturing capability, extensive global network, our strong customer base, outstanding product portfolio, efficient supply chain solutions and sophisticated IT support services. Together, these elements give our customers the competitive edge they seek, making us their indispensable partner on their journey to growth.**

### OUR COMPETITIVE STRENGTHS

#### Integrated Specialty Chemical Solutions Provider



Megachem's capabilities in proprietary chemical products manufacturing, contract manufacturing and global distribution provide customers with integrated solutions, thus adding higher value to them.

These make us a one-stop shop where customers can find total solutions.

#### Superior Manufacturing Capability

In contract manufacturing, we add value by blending materials according to our customers' formulation and specific requirements. With our proven track record with several multinationals, customers can confidently outsource to us their non-core production activities so that they can focus on what they do best – making their business grow.

#### Extensive Global Network

Our extensive network in Singapore, Malaysia, Indonesia, Thailand, Philippines, Vietnam, China, India, Middle-east, Australia and the UK enables us to serve our customers globally.



## WHY MEGACHEM

Our direct presence in these markets offers a premium service level and minimized operating cost for our customers. Our integrated network also allows for cross-border exchange of market information and enables us to connect our suppliers to their desired markets.

### Strong Customer Base

Over the years we have developed a strong and diversified customer base comprising largely multi-nationals companies spreading across a wide range of industries. This is a testimony of their confidence in us and of our ability to deliver long-term value to them.

### Outstanding Product Portfolio

We carry a wide range of products which provides a one-stop shop and enables us to be a key supplier to our customers.

### Quality Supply Source

Our suppliers have proven track records in quality, consistency, competitive pricing and supply reliability.

A strong presence in Asia has helped several of our principal suppliers to penetrate key markets, which led to our appointment as their sole distributor and business partner.

### Efficient Supply Chain Solutions

Our warehousing facilities stock different classes and grades of specialty chemicals. Coupled with an efficient logistics support and just-in-time inventory controls, we are able to help customers improve their inventory planning and reduction of inventory costs.

### Sophisticated IT Infrastructure

Megachem invests heavily in a world-class IT infrastructure including mySAP Business Suite software. This enhances our service efficiency as well as provides seamless information exchange which gives us a competitive advantage over our competitors.

## YOUR COMPETITIVE ADVANTAGES

### As our Customers

#### Competitive Product Pricing

Megachem can act as a single source supplier of a full suite of products, offering you increased product cost effectiveness. Through product bundling, overall product cost and freight cost can be reduced for our customers.

#### Process and Operational Cost Efficiency

Instead of having a big procurement team inquiring with several suppliers, negotiating prices, terms and conditions with each of them, you can rely on us as one single point of contact. By consolidating your chemical materials requirements and outsourcing to us, it enables you to focus your time and effort on your core activities. We can source and order your products for you, store them in close proximity to your production locations and deliver them not before or after they are needed; instead, they arrive "just-in-time" as they are needed, effectively reducing operational costs such as warehousing and inventory obsolescence.

#### Product Options

Megachem has global sourcing network around the world with the ability to source for quality products at economical cost. We are able to offer various alternatives for your chemical raw material requirements by offering wider choices in terms of product quality and pricing.

#### Optimum Service Level

Megachem partners many multi-nationals companies, serving them as a global supplier. For these companies our Key Accounts Managers provide impeccable level of personalised services and offer customised solutions.

#### Adding Value Through Contract Manufacturing

Megachem adds further value to your business by providing contract manufacturing services. We can source the raw materials for you, store them in our warehouse, produce the finished products according to your formulations, pack them

according to your requirements and deliver them directly to you or your customers. By engaging us as your contract manufacturer, your non-core production is outsourced to us and in so doing reduces your capital expenditure, production and other related costs.

Outsourcing your non-core productions to us also enables you to penetrate key markets in Asia without investing heavily in capital expenditure. We have the facilities to produce chemicals to your specific needs and the logistic infrastructure to manage your raw materials and finished goods storing and delivery.

### As our Suppliers

#### Your Partner in Growing your Markets

As a supplier to us, we add value to you by bringing your products to your desired markets. We do so by leveraging on our extensive network around the world, especially in Asia where there is a tremendous potential for growth. Supported by an efficient logistical infrastructure and our in-depth market knowledge, we can assist you in developing your markets bigger and faster.

#### Streamlining your Distribution Channels

Acting as your distributor, you can outsource smaller customer accounts to us, enabling you to channel your resources towards the bigger customers thus streamlining your distributions channels, operations and reducing your operational cost.

#### Reducing your Inventory Cost

By appointing us as your distributor, you will be able to reduce your inventory holding cost. Our robust inventory management system and strong supply chain infrastructure will ensure sufficient level of stocks to meet customers' demand within shortest possible delivery time.

#### Market Information Sharing

We view our suppliers as important business partners. As such, we have open channels of sharing and communication of market knowledge and information to keep our suppliers abreast of market developments.



## DEFINING MEGACHEM



DIFFERENTIATE  
ENERGIZED  
EXECUTE  
ENGAGE  
PERFORMANCE-DRIVEN  
PASSION  
CHANGE

SUPPORTING MEGACHEM'S KEY SUCCESS FACTORS IS THE INVIGORATING DEEP CULTURE – ONE THAT BONDS THE SPIRIT OF OUR PEOPLE TOGETHER WITH COMMON VALUES, EASILY RECOGNIZABLE IN THE CONDUCT OF OUR BUSINESS WHERE:

We constantly **DIFFERENTIATE** ourselves to stay ahead of competition

We are **ENERGIZED** towards realizing our vision in everything that we do

We constantly pursue better ways to **ENGAGE** with our business partners to achieve mutually beneficial relationship

Our people are committed to **EXECUTE** and deliver quality results

Because we truly believe in our **PASSION** to better serve and deliver our best

We are a **PERFORMANCE-DRIVEN** organization

We embrace **CHANGE** to stay relevant.

# BOARD OF DIRECTORS



## MR SIDNEY CHEW CHOON TEE

*Executive Chairman & Managing Director*

Mr Sidney Chew, the Group's Executive Chairman and Managing Director, is one of the founders of Megachem. He was appointed as the Managing Director of the Group on 9 November 2005. As Executive Chairman, he leads the Board in setting Megachem's vision and strategic direction. In his executive functions, he assumes primary responsibility for managing the Group's operations. He holds a Bachelor of Science (Hons) in Chemistry and a Bachelor of Arts, majoring in Business Administration, from the University of Guelph. He has many years of working experience in the chemical industry. Prior to this, he was a director at a chemical company where he was responsible for product development, marketing and technical matters.



## MR JEFFREY TAN BOCK CHIA

*Executive Director*

Mr Jeffrey Tan is one of the founders of Megachem. As an Executive Director, he oversees the Group's operations in China and the Philippines as well as the implementation of the Group's business strategy. Mr Tan completed his "A" levels at Hwa Chong Junior College. His working experience in the chemical industry started since 1987. Mr Tan is also a Honorary Council Member of the Singapore-China Business Association. He is appointed by the Ministry of Education to be a member of the School Advisory Committee of River Valley High School.



## MR CHAN KAM LOON

*Lead Independent Director*

Mr Chan Kam Loon was appointed to the Board on 28 September 2007 as an Independent Director and serves as Chairman of the Audit Committee and a member of the Nominating and Remuneration Committee. He was subsequently appointed as Lead Independent Director on 21 February 2011. He holds a degree in Accounting and Finance from the London School of Economics and is a member of the Institute of Chartered Accountants in England and Wales. He has many years of experience in accounting and audit with KPMG London and PWC Singapore, investment banking with Morgan Grenfell Asia Ltd and HG Asia Securities Ltd and was a director of investments at Suez Asia Holdings. Mr Chan was head of the Listings Function of Markets Group at the Singapore Exchange for 3 years. He currently serves as an independent director of four other SGX listed companies.

## BOARD OF DIRECTORS



**MR LEE BON LEONG**

*Independent Director*

Mr Lee Bon Leong was appointed to the Board on 5 September 2003 as an Independent Director. He holds a Bachelor of Law (Hons) and a Masters of Law from the National University of Singapore. A practising lawyer with many years of experience in corporate and conveyancing law, Mr Lee is the Chairman of the Nominating Committee and a member of the Audit and Remuneration Committee. Mr Lee is the Senior Partner of Lee Bon Leong & Co. He is a Justice of the Peace and was a member of the Panel for the Disciplinary Committee of Enquiry Public Service Commission. Mr Lee is the Vice-Chairman and Trustee of the Inmates' Families Support Fund and a member of the Singapore Board of Visiting Justices. He is also the Chairman of the Home Detention Advisory Committee. Mr Lee was appointed as the Chairman of the Board of Visitors for SCDF & SPF Detention Barracks (DB) in April 2016. He is also serving as an independent director in two other SGX listed companies.



**DR TAY KIN BEE**

*Independent Director*

Dr Tay Kin Bee was appointed to the Board on 1 July 2013 and serves as Chairman of the Remuneration Committee and a member of the Audit Committee. He holds a Doctor of Business Administration degree, a Master's degree in Accounting and Finance as well as a Bachelor's degree in Mechanical Engineering (1st Class Honours). He has vast experience in the chemical industry, having served as the Managing Director and CEO of a specialty chemical distribution company for several years in Malaysia and Singapore. Dr Tay had also made significant contribution to the chemical industry, sharing his knowledge and expertise in various committees. Previously he had served as the Deputy Chairman of the Chemical Standards Committee (Singapore Standards Council), a Governing Board Member of the Workplace, Safety and Health Institute, and the Chairman of the Singapore Chemical Industry Council. He is also a director of SPCI Pte Ltd, a chemical manufacturer of sulphur-based products.



**MR TOSHIYUKI YOKOGAWA**

*Non-Executive Director*

Mr Toshiyuki Yokogawa was appointed to the Board on 1 June 2016 as a Non-Executive Director. He holds a degree in Commerce and Economics and started his career in Chori Co.,Ltd in 1994. He has vast experience in the chemical industry, having held key positions within Chori Co.,Ltd. Mr Yokogawa is currently a manager in the Performance Chemical division in Chori Co., Ltd. Prior to his current positions, he was the Managing Director of Chori America, Inc and Chori Singapore Pte Ltd and the Chief Representative of Chori Co., Ltd Manila office.

## SENIOR MANAGEMENT



### MR CHAN KHAI LEONG

*Group General Manager*

Mr Chan Khai Leong joined Megachem in December 2007 as the Business Development Director and was appointed as its Group General Manager in January 2009. As Group General Manager, he is responsible for the overall strategic planning as well as overseeing the day-to-day business operations for the Group's headquarters in Singapore. He also takes charge of the Group's manufacturing operations as well as operations in China. Mr Chan holds an honours degree in Chemistry from the National University of Singapore and has more than 20 years of experience in the chemical industries, assuming senior management roles in sales and marketing, production and plant expansion projects, technical service and business development in a wide range of specialty chemicals for use in a variety of industries.

### MR FRANCIS YAU THIAM HWA

*Chief Financial Officer*

Mr Francis Yau joined Megachem in 2000 as the General Manager of Megachem (Shanghai) Pte Ltd and Megachem International Trading (Shanghai) Co. Ltd prior to his appointment as the Group's Financial Controller in 2001. He was promoted to the position of Chief Financial Officer on 1 January 2007. Mr Yau takes responsibility for all financial matters including financial and treasury planning, financial risk management and investor relations. He had several years of corporate banking experience prior to joining Megachem. He holds a bachelor degree in Business Administration from the National University of Singapore, majoring in finance and is also a member of the Institute of Singapore Chartered Accountants. He currently serves as an independent director in two other companies listed on SGX.

### MS KWOK HWEE PENG

*Group Finance Manager*

Ms Kwok Hwee Peng joined Megachem as Group Accountant in 2002 and was promoted to the position of Group Finance Manager in 2008. She is responsible for the Group's financial reporting and is also the Company Secretary. She has several years of experience in accounting and audit with PricewaterhouseCoopers prior to joining Megachem. She holds a Bachelor of Accountancy from the Nanyang Technological University and is also a member of the Institute of Singapore Chartered Accountants.

## OUR HUMAN CAPITAL



At Megachem, our people are our greatest asset hence is at the heart of everything we do. We believe in the continuous investment and development of our people to realize their full potential to help the organization achieve excellence in our business results. The People Developer accolade is testimony to this longstanding commitment and belief that investment in people will thrust the organization towards the pinnacle of excellence in our relationship with our partners, customers and suppliers.

In pursuit of People Excellence, we adopt a holistic approach to human capital development.

### REWARDS & BENEFITS

Megachem considers the competitive market place, relative value of each position to the Company as well as among similar jobs, performance of individual employees, qualifications and relevant work experience in deciding how much an individual is paid. The Company reviews its compensation and benefits program regularly to ensure it is on par with the market. The Company believes in providing targeted incentives and rewards to employees, consistent with their performance contribution to profit result outcomes.

### WELFARE AND WELL-BEING

We are committed to create and sustain a working environment supportive of work life balance for all employees as they are respected partners of the business. The Company conducts various programs to foster welfare and well-being among colleagues, to improve overall health of employees and to achieve work-life harmony. In so doing, a visible team of committed, productive and motivated employees is highly energized to realize the corporate vision, mission, values and culture.

### LEARNING AND DEVELOPMENT

We place people at the core of our human resource ("HR") strategy and holds strong belief in nurturing of our employees to achieve excellent business results and attain high level of competency. The Company's HR policy is one that promotes the availability of opportunities for people to be trained on a continuing basis.

Megachem is a certified "People Developer" organisation in Singapore. "People Developer" is a certification awarded by Spring Singapore to companies which have achieved excellence in human capital development. This niche standard provides us with a total approach to attracting, managing and engaging employees for high performance and aims to bring the best out of our people.

### CAREER & LEADERSHIP DEVELOPMENT

Our performance appraisal process has a development component that encourages employees to plan development that will help increase their performance and growth in their personal and professional development. In addition, to ensure a rewarding and fulfilling career at Megachem, the Company has in place a Mentorship Program where mentees are guided and coached by Mentors in professional developmental and personal growth.

### HIGHER LEARNING EDUCATION SUPPORT

The Higher Learning Education ("HLE") program provides financial assistance and professional education and training ("PET") to eligible employees who choose to further their professional education to enhance their knowledge and skills. This program provides reimbursement of eligible expenses for approved Diploma/Degree/Master/PhD certification programs related to employee's current or future job responsibilities.

### STUDENTS AND GRADUATES

Megachem welcomes Interns/Attachment students to embark on an exciting learning journey with challenging assignments and projects.

Fresh graduates are strongly encouraged to apply and join the Company as Management Trainees in their first step towards building a promising career.



## OUR ACHIEVEMENT

AT MEGACHEM, WE ARE CONSTANTLY PURSUING HIGHER STANDARDS OF BUSINESS EXCELLENCE. OUR STRING OF ACHIEVEMENTS AND AWARDS GARNERED OVER THE YEARS ATTEST TO OUR CUSTOMER-FOCUSED CORPORATE VALUES AND QUALITY STANDARDS.



# C O R P O R A T E I N F O R M A T I O N

## BOARD OF DIRECTORS

Sidney Chew Choon Tee (Executive Chairman & Managing Director)  
 Jeffrey Tan Bock Chia (Executive Director)  
 Chan Kam Loon (Lead Independent Director)  
 Lee Bon Leong (Independent Director)  
 Tay Kin Bee (Independent Director)  
 Toshiyuki Yokogawa (Non-Executive Director)

## AUDIT COMMITTEE

Chan Kam Loon (Chairman)  
 Lee Bon Leong  
 Tay Kin Bee

## REMUNERATION COMMITTEE

Tay Kin Bee (Chairman)  
 Lee Bon Leong  
 Chan Kam Loon

## NOMINATING COMMITTEE

Lee Bon Leong (Chairman)  
 Chan Kam Loon  
 Sidney Chew Choon Tee

## EXECUTIVE COMMITTEE

Sidney Chew Choon Tee (Chairman)  
 Jeffrey Tan Bock Chia  
 Chan Khai Leong  
 Francis Yau Thiam Hwa  
 Kwok Hwee Peng

## COMPANY SECRETARIES

Toon Choi Fan  
 Kwok Hwee Peng

## REGISTERED OFFICE

11 Tuas Link 1 Singapore 638588  
 Tel: (65) 6933 9999  
 Fax: (65) 6863 2818  
 Website: www.megachem.com

## SHARE REGISTRAR AND SHARE TRANSFER OFFICE

Tricor Barbinder Share Registration Services  
 (a division of Tricor Singapore Pte. Ltd.)  
 80 Robinson Road #02-00  
 Singapore 068898  
 Tel: (65) 6236 3333

## AUDITORS

RSM Chio Lim LLP  
 8 Wilkie Road #03-08  
 Wilkie Edge  
 Singapore 228095  
 Partner-in-charge: Woo E-Sah  
 (with effect from financial year ended 31 December 2017)

## PRINCIPAL BANKERS

Citibank, N.A.  
 HSBC  
 Oversea-Chinese Banking Corporation Limited  
 Standard Chartered Bank  
 United Overseas Bank Limited

## CONTINUING SPONSOR

SAC Capital Private Limited  
 1 Robinson Road #21-02 AIA Tower  
 Singapore 048542  
 Tel: (65) 6532 3829

## INVESTOR RELATIONS ADVISOR

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 55 Market Street #02-01  
 Singapore 048941  
 Tel: (65) 6534 5122  
 Email: dolores.phua@citigatedewerogerson.com  
 Email: cassandra.seet@citigatedewerogerson.com

## INVESTOR RELATIONS CONTACT

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 Email: dolores.phua@citigatedewerogerson.com  
 Cassandra Seet  
 Email: cassandra.seet@citigatedewerogerson.com  
 Megachem Limited  
 Francis Yau Thiam Hwa  
 Email: fsyau@sg.megachem.com

## INVESTOR RELATIONS WEBSITE

www.megachem.com  
 www.shareinvestor.com

## PERSONAL DATA PROTECTION OFFICER CONTACT

Megachem Limited  
 Woo Tze Yung  
 Email: tywoo@sg.megachem.com

# C O R P O R A T E O F F I C E S

## MEGACHEM LIMITED MEGACHEM MANUFACTURING PTE LTD MEGACHEM RAYA PTE LTD MEGACHEM (SHANGHAI) PTE LTD

11 Tuas Link 1,  
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Tel: +65 6933 9999  
Fax: +65 6863 2818  
E-mail: enquiry@sg.megachem.com  
Website: www.megachem.com

## C. N. CHEMICALS SDN. BHD.

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47301 Petaling Jaya,  
Selangor Darul Ehsan, Malaysia  
Tel: +60 3 7803 0795  
Fax: +60 3 7803 0878  
E-mail: enquiry@my.megachem.com

## P.T. MEGA KEMIRAYA

Wisma 77. 6th Floor  
JI S. Parman Kav. 77 Slipi  
Jakarta Barati, 11410 Indonesia  
Tel: +62 21 536 3189  
Fax: +62 21 535 8987  
E-mail: enquiry@id.megachem.com

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25 Soi Chalongkrung 31,  
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Fax: +66 2 739 6332  
E-mail: enquiry@megachem.com.th

## MEGACHEM PHILS., INC

Room 1205 12th Floor,  
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Corner Garnet Road Ortigas Center,  
Pasig City, Philippines  
Tel: +63 2 687 6086, 687 6089, 687 6097  
Fax: +63 2 687 7937  
E-mail: enquiry@ph.megachem.com

## MEGACHEM INTERNATIONAL TRADING (SHANGHAI) CO., LTD

988 Dingxi Road,  
Unit 1502, Yintong Building,  
Shanghai, China 200050  
Tel: +86 21 5237 5028  
Fax: +86 21 5237 5025  
E-mail: enquirysh@cn.megachem.com

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Room 2212, Building 7,  
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External Guangqumenwai Street,  
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Fax: +86 10 8751 3382  
E-mail: enquirybj@cn.megachem.com

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E-mail: enquiry@uk.megachem.com

## MEGACHEM MIDDLE EAST FZE

LIU 10 Unit AB03 South Zone,  
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Dubai, United Arab Emirates  
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Fax: + 971 4 285 1615  
E-mail: enquiry@uae.megachem.com

## MEGACHEM VIETNAM COMPANY LIMITED

Unit 703, 7th Floor  
45 Dinh Tien Hoang Street,  
Ben Nghe Ward District 1,  
Ho Chi Minh City, Vietnam  
Tel: +84 28 3910 6638  
Fax: +84 28 3910 6636  
E-mail: enquiry@vn.megachem.com

## MGI CHEMICALS PRIVATE LIMITED

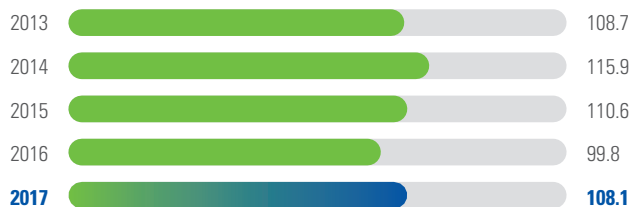
407, 4th Floor, Jaswanti Landmark,  
LBS Marg, Vikhroli (West),  
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Mumbai 400079, India  
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Fax: +91 22 4026 0907  
E-mail: info@in.megachem.com

## MG CHEMICALS (AUSTRALIA) PTY LTD

Suite 8, 12 Pascoe Vale Road  
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Tel: +61 03 9326 2882  
Fax: +61 03 9375 7886  
E-mail: enquiry@au.megachem.com

# FINANCIAL HIGHLIGHTS

## SALES (\$\$\*MIL)

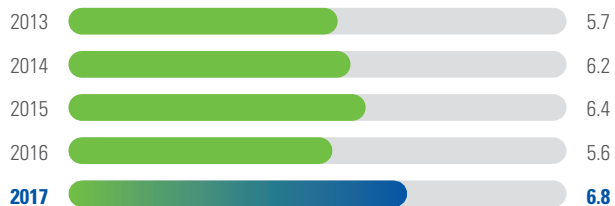


## NET PROFIT AFTER TAX & BEFORE NON-CONTROLLING INTERESTS

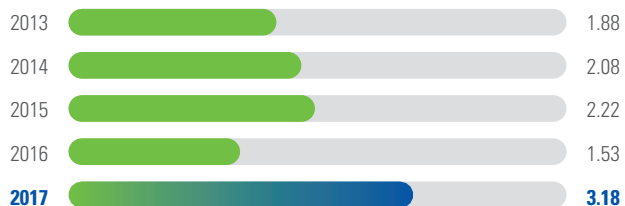
(\$\$\*MIL)



## EBITDA (\$\$\*MIL)



## EPS (CENTS)



## FINANCIAL HIGHLIGHTS

INCOME STATEMENT	2013	2014	2015	2016	2017
Sales (S\$'mil)	108.7	115.9	110.6	99.8	<b>108.1</b>
Sales Growth (%)	2.3%	6.7%	-4.6%	-9.8%	<b>8.4%</b>
Profit After Tax (S\$'mil)	2.8	3.2	3.3	2.2	<b>4.2</b>
Profit After Tax Growth (%)	-17.8%	14.6%	2.9%	-32.1%	<b>88.1%</b>
Profit After Tax Margin (%)	2.6%	2.8%	3.0%	2.2%	<b>3.9%</b>
EBITDA (S\$'mil)	5.7	6.2	6.4	5.6	<b>6.8</b>
EPS (cents)	1.88	2.08	2.22	1.53	<b>3.18</b>
Weighted Average Number of Ordinary Shares (mil)	133.3	133.3	133.3	133.3	<b>133.3</b>
ROE (%)	6.2%	6.6%	7.0%	4.9%	<b>9.5%</b>

HALF-YEAR BREAKDOWN	2013	2014	2015	2016	2017
Sales for first half (S\$'mil)	51.9	55.6	57.6	51.3	<b>51.4</b>
% Growth 1H vs 1H	-4.0%	7.3%	3.5%	-10.9%	<b>0.2%</b>
Sales for second half (S\$'mil)	56.8	60.3	53.0	48.5	<b>56.7</b>
% Growth 2H vs 2H	8.8%	6.1%	-12.1%	-8.5%	<b>17.0%</b>
Profit After Tax for first half (S\$'mil)	1.5	1.1	1.5	0.9	<b>2.2</b>
% Growth 1H vs 1H	-26.3%	-24.7%	30.7%	-38.3%	<b>139.1%</b>
Profit After Tax for second half (S\$'mil)	1.3	2.1	1.8	1.3	<b>2.0</b>
% Growth 2H vs 2H	-4.8%	61.5%	-12.6%	-26.9%	<b>52.3%</b>

FINANCIAL POSITION	2013	2014	2015	2016	2017
Total Assets (S\$'mil)	74.7	83.3	77.7	73.2	<b>79.9</b>
Shareholders Equity (S\$'mil)	40.3	41.9	42.2	42.0	<b>44.6</b>
Net Asset/Share (cents)	30.24	31.45	31.65	31.50	<b>33.47</b>
Borrowings (S\$'mil)	17.7	21.9	18.3	15.3	<b>16.7</b>
Gearing ratio (times)	0.44	0.52	0.43	0.36	<b>0.37</b>
Cash (S\$'mil)	8.5	9.0	11.1	11.6	<b>9.3</b>
Current ratio (times)	1.76	1.74	2.07	2.30	<b>2.06</b>

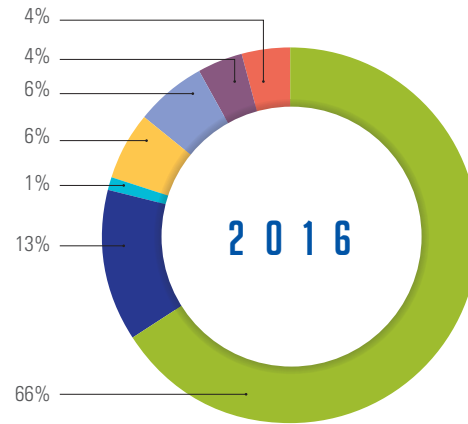
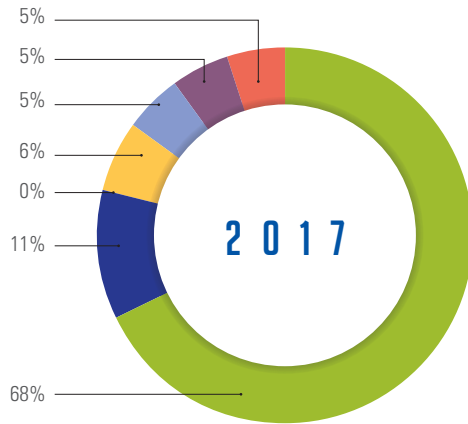
DIVIDEND	2013	2014	2015	2016	2017
Net Dividend/Share (cents)	1.00	1.00	1.00	1.20	<b>1.20</b>
Net Dividend Payout (%)	53.3%	48.0%	45.1%	78.4%	<b>37.7%</b>
Net Dividend Yield (%) <sup>(1)</sup>	3.3%	3.0%	2.8%	3.0%	<b>2.8%</b>

Note:

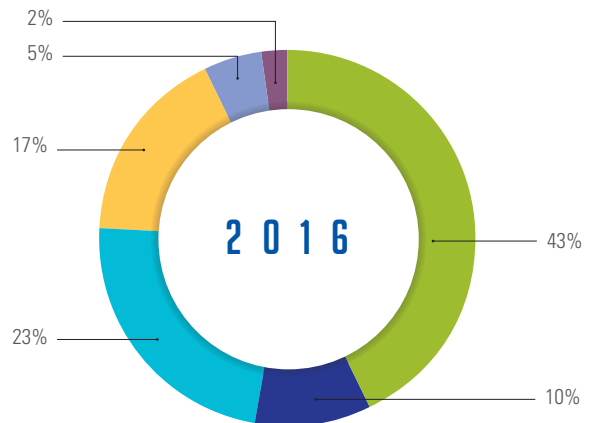
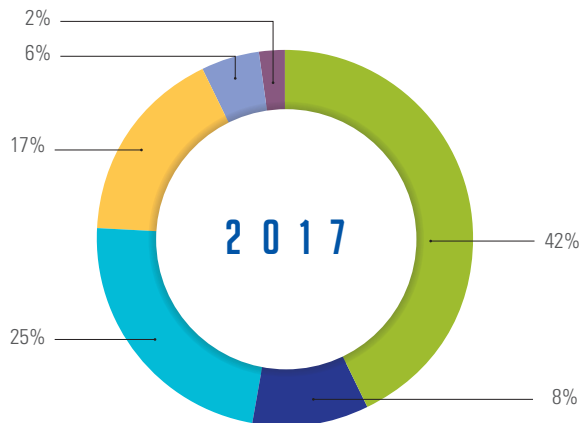
(1) Dividend Yield = Dividend per share/average of beginning and closing prices of the respective financial year.

# FINANCIAL HIGHLIGHTS

## GLOBAL MARKETS



## INDUSTRY COVERAGE



# OPERATING AND FINANCIAL REVIEW

## 1. PROFITABILITY ANALYSIS

### 1.1 SALES

	H2 2016	H1 2017	H2 2017	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	SS'000	SS'000	SS'000	H2 2017 vs H1 2017		H2 2017 vs H2 2016	
				SS'000	%	SS'000	%
ASEAN	31,780	35,151	37,855	2,704	7.7	6,075	19.1
North Asia	6,247	5,432	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

	FY2016		FY2017		Variance Fav/(Unfav)	
	SS'000	%	SS'000	%	SS'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

# OPERATING AND FINANCIAL REVIEW

## 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)	
				H2 2017 vs H1 2017		H2 2017 vs H2 2016	
	S\$'000	S\$'000	S\$'000	S\$'000	%	S\$'000	%
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

	FY2016	FY2017	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



## OPERATING AND FINANCIAL REVIEW

### 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%.

## 1.2 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.

## 1.3 OTHER INCOME

				Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	H2 2016	H1 2017	H2 2017	H2 2017 vs H1 2017		H2 2017 vs H2 2016	
	S\$'000	S\$'000	S\$'000	S\$'000	%	S\$'000	%
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)

# OPERATING AND FINANCIAL REVIEW

	FY2016	FY2017	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 interest 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.

## OPERATING AND FINANCIAL REVIEW

### 1.4 OPERATING EXPENSES

H2 2017 vs H1 2017

H2 2017 vs H2 2016

			Variance Fav/(Unfav)		Variance Fav/(Unfav)		
	H2 2016	H1 2017	H2 2017	H2 2017 vs H1 2017		H2 2017 vs H2 2016	
	S\$'000	S\$'000	S\$'000	S\$'000	%	S\$'000	%
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

	FY2016	FY2017	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)

# OPERATING AND FINANCIAL REVIEW

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%.

## 1.5 FINANCE COSTS

Finance costs comprised the following:–

			Variance Fav/(Unfav)		Variance Fav/(Unfav)		
	H2 2016	H1 2017	H2 2017	H2 2017 vs H1 2017	H2 2017 vs H2 2016		
	S\$'000	S\$'000	S\$'000	S\$'000	%	S\$'000	%
Bills payable	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 payable	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.

## OPERATING AND FINANCIAL REVIEW

### **1.6 SHARE OF PROFIT OF ASSOCIATED COMPANIES**

H2 2017 vs H1 2017

H2 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.

### **1.7 PROFIT BEFORE INCOME TAX**

H2 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%.

### **1.8 NET PROFIT**

H2 2017 vs H1 2017

H2 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.

# OPERATING AND FINANCIAL REVIEW

## 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%.

## 1.9 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 million 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.

## 2.0 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.

## OPERATING AND FINANCIAL REVIEW

### 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 million 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.

## 3.0 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.

# SHARE INFORMATION

(AS AT 20 FEBRUARY 2018)

Listing Date	17 October 2003
IPO Price	28 cents
Historical High	68 cents
Historical Low	13 cents
52 weeks High	44 cents
52 weeks Low	28 cents
Price (as at 20 February 2018)	38 cents
No of Shares	133,300,000
Earnings per share FY 2017	3.18 cents
Historical P/E	11.9 x
Market Capitalisation	\$50.6 mil
NTA/share	33.5 cents
Price/Book Ratio	1.13

## MEGACHEM



## MEGACHEM VS ST ALL SHARES & ST CATALIST





# D I V I D E N D

## DIVIDEND

	2013	2014	2015	2016	2017
Average price for the period (cents)*	28.0	33.0	36.0	40.0	42.5
Dividend/share (cents) – net	1.0	1.0	1.0	1.2	1.2
Dividend payout (%) – net	53.3%	48.0%	45.1%	78.4%	37.7%
Dividend Yield (%) – net**	3.3%	3.0%	2.8%	3.0%	2.8%

Interim Dividend Paid : 0.5 cts

Final Dividend Proposed : 0.7 cts

Total FY 2017 Dividend : 1.2 cts

Final dividend for FY 2017 is subject to shareholders' approval at the forthcoming Annual General Meeting.

\* Average price is the average of beginning and closing prices of the respective financial year.

\*\* Dividend yield = dividend per share/average price.

## TOTAL SHAREHOLDERS RETURN 2017

	%
Dividend Yield	2.8%
Capital Gain/(Loss)*	-6.8%
Total Shareholders Return	-4.0%

\* Capital gain/(loss) is calculated using 31 December 2016 closing price of 44 cents/share and 31 December 2017 closing price of 41 cents/share.

# YEAR IN REVIEW

## FEBRUARY 2017

Megachem's associated company, Megachem (Thailand) Public Company Limited ("MGT") obtained approval from the Securities and Exchange Commission of Thailand ("SEC") for its initial public offering on the Securities Exchange of Thailand – Market for Alternative Investment ("SET-MAI") ("IPO"). The trading of MGT's shares on the SET-MAI was scheduled to commence on 23 February 2017. MGT issued an aggregate of 100,000,000 new Shares (the "New Shares") for subscription at the offering price of 1.89 Thai Baht per New Share. Upon completion of the IPO, the Company's shareholding interest in MGT decrease from approximately 48% to approximately 36%. MGT remains an associated company of Megachem.

FEB

## FEBRUARY 2017

Megachem reported revenue of S\$99.8 million and net profit of S\$2.2 million for FY 2016. A final tax exempt dividend of 0.7 cent per share was proposed for FY2016 (subject to approval by shareholders at its Annual General Meeting held in April 2017).

## FEBRUARY 2017

MGT began trading on 23 February 2017. The shares of MGT opened at 2.74 Thai Baht, representing a premium of 45.0% above offering price of 1.89 Thai Baht. The counter closed at 2.42 Thai Baht, which is 28.0% above the offering price.

APR

## APRIL 2017

Annual General Meeting for FY 2016.

MAY

## MAY 2017

A final tax exempt dividend of 0.7 cent per share for the financial year ended 31 December 2016 was paid.

JUL

## JULY 2017

Megachem was accorded the Best Annual Report Award (Gold) (for companies with less than S\$300 million market capitalization) at the Singapore Corporate Awards.

AUG

## AUGUST 2017

Megachem achieved 139.1% increase in net profit to S\$2.2 million for the first half of FY 2017 and declared an interim tax exempt dividend of 0.5 cent per share.

FEB  
2018

## FEBRUARY 2018

Megachem net profit grew by 88.1% to S\$4.2 million for FY 2017 on the back of a 8.4% increase in revenue to S\$108.1 million. A final tax exempt dividend of 0.7 cent per share was proposed for FY 2017 (subject to approval by shareholders at its forthcoming Annual General Meeting).

# FINANCIAL CALENDAR

Results Announcement for Financial Year ended 31 December 2017	Analyst Briefing	Online Q&A with investors & shareholders
<b>22 FEBRUARY 2018</b>	<b>23 FEBRUARY 2018</b>	<b>23 FEBRUARY - 1 MARCH 2018</b>
Annual General Meeting	Books Closure Date (subject to approval at Annual General Meeting)	Dividend Payment Date (subject to approval at Annual General Meeting)
<b>20 APRIL 2018</b>	<b>11 MAY 2018</b>	<b>31 MAY 2018</b>
Results Announcement for Half Year ending 30 June 2018	Analyst Briefing	Online Q&A with investors & shareholders
<b>AUGUST 2018</b>	<b>AUGUST 2018</b>	<b>AUGUST 2018</b>
Results Announcement for Financial Year ending 31 December 2018		
<b>FEBRUARY 2019</b>		



# C O R P O R A T E G O V E R N A N C E R E P O R T

MEGACHEM WAS ACCORDED THE BEST ANNUAL REPORT AWARD (GOLD) IN THE “LESS THAN \$300 MILLION MARKET CAPITALISATION” CATEGORY AT THE SINGAPORE CORPORATE AWARDS IN 2017.

TO DATE, MEGACHEM HAS RECEIVED AWARDS IN NINE OUT OF THE TWELVE YEARS SINCE THE LAUNCH OF THE SINGAPORE CORPORATE AWARDS IN 2005. THESE ACCOLADES ARE A TESTAMENT OF THE GROUP’S COMMITMENT IN MAINTAINING HIGH STANDARDS OF CORPORATE GOVERNANCE IN ORDER TO PROTECT AND ENHANCE THE INTERESTS OF OUR SHAREHOLDERS.

THE DIRECTORS AND MANAGEMENT STRONGLY SUPPORT THE PRINCIPLES OF TRANSPARENCY, ACCOUNTABILITY AND INTEGRITY AS SET OUT IN THE CODE OF CORPORATE GOVERNANCE 2012 (THE “CODE”). THIS REPORT DESCRIBES THE COMPANY’S CORPORATE GOVERNANCE POLICIES AND PRACTICES WHICH WERE IN PLACE DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (“FY 2017”).



## **BOARD MATTERS**

### **The Board’s Conduct of its Affairs**

#### **Principle 1**

Every Company should be headed by an effective Board to lead and control the Company. The Board is collectively responsible for the long-term success of the Company. The Board works with management to achieve this objective and the management remains accountable to the Board.

1.1 The Board’s role is to:

- (a) provide entrepreneurial leadership, set strategic objectives, and ensure that the necessary financial and human resources are in place for the Company to meet its objectives;
- (b) establish a framework of prudent and effective controls which enables risks to be assessed and managed, including safeguarding of shareholders’ interests and the Company’s assets;
- (c) review management performance;
- (d) identify the key stakeholder groups and recognize that their perceptions affect the Company’s reputation;
- (e) set the Company’s values and standards (including ethical standards), and ensure that obligations to shareholders and other stakeholders are understood and met;
- (f) consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulations;

# CORPORATE GOVERNANCE REPORT

- (g) review financial plans including any investments and divestments;
- (h) approve the release of the financial results, annual reports and announcements of the Group to shareholders;
- (i) ensure the Group complies with laws, regulations, policies, directives, guidelines and internal code of conduct;
- (j) review and approve the recommended remuneration framework and packages for the Board and key management personnel;
- (k) review the performance of the Board, set the criteria for selection of directors and to nominate directors for shareholders' approval; and
- (l) ensure communication with shareholders are accurate, adequate and timely.

- 1.2 All directors recognize that they have to discharge their duties and responsibilities at all times as fiduciaries in the interests of the Company. The Board is a representation of the shareholders in the Company and is accountable to them through effective governance of the business.
- 1.3 To assist the Board in the execution of its responsibilities, the Board has constituted various Board committees, namely the Audit Committee, Remuneration Committee, Nominating Committee and the Executive Committee. The role and function of each committee is described in subsequent sections in this report. While these committees are delegated with certain responsibilities, the ultimate responsibility for the final decision lies with the entire Board.

- 1.4 The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings will be convened when circumstances require.

The Company's Constitution permits directors to attend meetings by way of telephonic and videoconference meetings.

Details relating to the number of Board and committee meetings and the attendance of the directors are disclosed in this Report.

- 1.5 The Board has adopted a set of guidelines on matters that require its approval. Matters which are specially reserved for the Board's approval include those involving business plans and budgets, investments, material acquisitions and disposals of assets, corporate or financial restructuring, corporate strategy, share issuances, dividends, and other returns to shareholders.
- 1.6 All newly appointed directors would be provided an induction program on his duties as a director and how to discharge those duties. Briefings would also be provided by management on the Group's history, business operations and corporate governance practices.

The Group has a director training policy that requires any newly appointed directors with no prior experience as a listed company's director to attend relevant directorship courses, such as directorship courses from the Singapore Institute of Directors. The Company would also provide existing directors to attend seminars and trainings to enable them to keep pace with changes of regulatory and financial reporting standards that have a material bearing on the Company and its industry. In FY 2017, the directors attended briefings by our external auditors on new financial reporting standards and key amendments to the Companies Act, Chapter 50.

- 1.7 All Board committees are constituted with clear Terms of Reference to assist the Board in discharging its functions and responsibilities. The Terms of Reference are provided to each newly-appointed director.

## CORPORATE GOVERNANCE REPORT

**BOARD COMPOSITION AND GUIDANCE****Principle 2**

There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

**Board Committees**

Name	Designation	Audit Committee	Nominating Committee	Remuneration Committee	Executive Committee
Mr Sidney Chew Choon Tee	Executive Chairman & Managing Director		Member		Chairman
Mr Jeffrey Tan Bock Chia	Executive Director				Member
Mr Chan Kam Loon	Lead Independent Director	Chairman	Member	Member	
Mr Lee Bon Leong	Independent Director	Member	Chairman	Member	
Dr Tay Kin Bee	Independent Director	Member		Chairman	
Mr Toshiyuki Yokogawa	Non-executive Director				
Mr Francis Yau Thiam Hwa	Chief Financial Officer				Member
Mr Chan Khai Leong	Group General Manager				Member
Ms Kwok Hwee Peng	Group Finance Manager & Company Secretary				Member

2.1 The Board currently comprises six directors of whom three are independent non-executive directors. As independent non-executive directors make up half of the Board, the Board is able to exercise objective judgement independently from management and no individual or small group of individuals dominate the decisions of the Board. Each independent director is required to complete a Director's Independence Form annually to confirm his independence.

2.2 As the Chairman of the Board and the Chief Executive Officer/Managing Director of the Group is the same person and is also part of the management, half of the Board is now made up of independent directors.

2.3 The Board of Directors currently comprises:

Mr Sidney Chew Choon Tee (Executive Chairman and Managing Director)  
 Mr Jeffrey Tan Bock Chia (Executive Director)  
 Mr Chan Kam Loon (Lead Independent and Non-executive Director)  
 Mr Lee Bon Leong (Independent and Non-executive Director)  
 Dr Tay Kin Bee (Independent and Non-executive Director)  
 Mr Toshiyuki Yokogawa (Non-executive Director)

After taking into account the views of the Nominating Committee, the Board is satisfied that each independent director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect, or could affect, the director's judgement.

2.4 The Nominating Committee and the Board determines annually whether a director who has served on the Board beyond nine years from the date of his first appointment, is independent, taking into account the need for progressive refreshing of the Board. Independent directors, Mr Lee Bon Leong ("Mr Lee") and Mr Chan Kam Loon ("Mr Chan"), have each served the Board for more than 9 years since September 2003 and September 2007 respectively.

After due consideration and careful assessment, the Nominating Committee and the Board are of the view that both directors have during their tenure acted independently in the best interest of Company. Mr Lee and Mr Chan continue to demonstrate the essential characteristics of independence expected by the

# CORPORATE GOVERNANCE REPORT

Board and in-depth knowledge of the Group's business. Furthermore, Mr Lee's legal expertise and Mr Chan's experience in accounting and finance contribute greatly to the effectiveness of the Board and matters relating to the strategic direction and corporate governance of the Group. Therefore, the Nominating Committee and the Board is satisfied that there is no existence of any relationship that could interfere with the exercise of the directors' independent business judgement.

Mr Lee and Mr Chan will abstain from voting on any resolution where it relates to their individual re-appointment.

- 2.5 The Board is of the opinion that, given the scope and nature of the Group's operations, the present size of the Board is appropriate for effective decision making.
- 2.6 The Board is of the opinion that the current Board comprises of persons who as a group, have core competencies such as finance, accounting, legal, business and industry knowledge necessary to lead and manage the Company. The profile of each of the directors is disclosed in the Board of Directors section of this Annual Report.
- 2.7 The non-executive directors participate actively in developing strategy and in reviewing and monitoring the performance of the Company.
- 2.8 Where necessary the independent directors may meet without the presence of the management of the Company.

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR**

### **Principle 3**

There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the Company's business. No one individual should represent a considerable concentration of power.

- 3.1 Mr Sidney Chew Choon Tee is currently the Executive Chairman of the Board and also the Managing Director of the Company. The Board is of the view that accountability and independence have not been compromised despite the Chairman and Managing Director being the same person. The Chairman and Managing Director have defined responsibilities which, during his tenure so far, have not conflicted with each other. Major business proposals are discussed at Board meetings before decisions are made. The Board believes there is sufficient element of independence and adequate safeguards against a concentration of power in one single person.
- 3.2 The Chairman is responsible to, among others:–
  - (a) lead the Board to ensure its effectiveness on all aspects of its role;
  - (b) set the agenda and ensure that adequate time is available for discussion of all agenda items, in particular strategic issues;
  - (c) promote a culture of openness and debate at the Board;
  - (d) ensure that the directors receive complete, adequate and timely information;
  - (e) ensure effective communication with shareholders;
  - (f) encourage constructive relations within the Board and between the Board and management;
  - (g) facilitate the effective contribution of non-executive directors in particular; and
  - (h) promote high standards of corporate governance.
- 3.3 The Board has appointed Mr Chan Kam Loon as the Lead Independent Director and is of the view that there is sufficiently strong independent element on the Board to enable the independent exercise of objective judgement on corporate affairs of the Group by members of the Board, taking into account factors such as the number of independent directors on the Board, as well as the size and scope of the affairs and operations of the Group.

The Lead Independent Director is available to shareholders where they have concerns which contact through the normal channels of the Chairman and Managing Director or Chief Financial Officer has failed to resolve or for which such contact is not appropriate.

- 3.4 Where necessary the independent directors shall meet without presence of the other directors and the Lead Independent Director shall provide feedback to the Chairman after such meetings.



## CORPORATE GOVERNANCE REPORT

### BOARD MEMBERSHIP

#### Principle 4

There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

#### Nominating Committee

4.1 To facilitate a formal and transparent process for the appointment of directors, the Board has formed the Nominating Committee.

The Nominating Committee comprises:–

Mr Lee Bon Leong (Chairman and Independent Non-executive Director)  
Mr Chan Kam Loon (Member and Lead Independent Non-executive Director)  
Mr Sidney Chew Choon Tee (Member and Managing Director)

The members of the Nominating Committee, including the Chairman of the committee, are independent non-executive directors except for Mr Sidney Chew Choon Tee who is the Company's Executive Chairman and Managing Director.

4.2 The Nominating Committee's principal responsibilities are to make recommendation to the Board on relevant matters relating to:

- (a) the review of board succession plans for directors, in particular, the Chairman and for the Managing Director;
- (b) the review of succession plans for key management personnel;
- (c) the development of a process for evaluation of the performance of the Board and its board committees;
- (d) the review of training and professional development programs for the Board;
- (e) the assessment annually whether or not a director is independent;
- (f) the appointment and re-appointment of directors (including alternate director, if applicable); and
- (g) the assessment of effectiveness of the Board as a whole and the contribution by each individual director to the Board.

The evaluation of appointment and re-appointment of a director takes into consideration, among others, diversity, the composition and progressive renewal of the Board and each director's competencies, commitment, contribution and performance.

Pursuant to the Constitution of the Company:–

- (a) one third of the directors shall retire from office by rotation at each Annual General Meeting; and
- (b) provided that all directors shall retire from office at least once every 3 years but shall be eligible for re-election.

4.3 The Nominating Committee's assessment of the independence of a director is guided by the Code and takes into account factors such as relationship with the Company, its related corporations, its 10% shareholders or its officers and whether these relationships interfere with his business judgement.

4.4 The Nominating Committee is of the view that despite some of the directors having other Board representations as described below, there are currently no compelling reasons to impose a cap on the number of board representations each director may hold since these directors are able to and have adequately carried out their duties as directors of the Company. Board meetings are planned and scheduled well in advance of the meeting dates.

# CORPORATE GOVERNANCE REPORT

- 4.5 The Board provides for appointment of alternate director only in exceptional cases such as when a director has a medical emergency. The Board will take into consideration the same criteria for selection of directors such as his qualifications, competencies, and independence. Currently, the Company does not have alternate directors.
- 4.6 The Nominating Committee sources for potential appointees through various channels such as recommendation, executive search or knowledge of the industry. The Nominating Committee then evaluates the eligibility of potential appointees based on several criteria such as his/her experience, ability to exercise independence in decision-making and his/her level of commitment prior to recommending them to the Board.

Each member of the Nominating Committee shall abstain from voting on any resolutions in respect of the assessment of his performance, appointment or re-appointment as a director.

#### 4.7 Directors' Key Information

Name of Director	Date of initial appointment	Date of last re-election	Present directorships in listed companies	Past directorships in the preceding 3 years in listed companies
Mr Sidney Chew Choon Tee	28 April 1989	10 April 2015	Nil	Nil
Mr Jeffrey Tan Bock Chia	12 September 1988	28 April 2014	Nil	Nil
Mr Chan Kam Loon	28 September 2007	17 April 2017	i. Hupsteel Ltd ii. Jiutian Chemical Group Limited iii. Sarine Technologies Limited iv. Uni-Asia Group Limited	Nil
Mr Lee Bon Leong	5 September 2003	10 April 2015	i. Ann Aik Limited ii. Asia Enterprises Holding Ltd	Nil
Dr Tay Kin Bee	1 July 2013	28 April 2014	Nil	Nil
Mr Toshiyuki Yokogawa	1 June 2016	17 April 2017	Nil	Nil

The following directors will stand for re-election in the forthcoming annual general meeting.

Name of Director	Shareholdings (direct and deemed) in the Company (as at 21 January 2018)	Relationships including immediate family relationships between the candidate and the directors, the Company or its 10% shareholders
Mr Jeffrey Tan Bock Chia	25,426,083	Nil
Dr Tay Kin Bee	Nil	Nil

Please refer to Board of Directors section of this Annual Report for a profile of each director's academic, professional qualifications and other principal commitments.

## CORPORATE GOVERNANCE REPORT

### **BOARD PERFORMANCE**

#### **Principle 5**

There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

- 5.1 The Nominating Committee conducts an annual assessment of the performance of the Board as a whole and its board committees in view of the complementary and collective nature of directors' contributions. This process is conducted using a questionnaire designed to assess the performance of the Board and its Board committees. The Board and Board committees' performance will be evaluated by each director and the findings are collated for the final review by the Nominating Committee and Board.
- 5.2 The Nominating Committee has established objective performance criteria such as entrepreneurial leadership, value setting, frequency of meetings and participation in strategic planning, risk management and internal controls to evaluate the Board's performance as a whole.
- 5.3 The Board reviews the assessment conducted by the Nominating Committee and where necessary makes changes to further improve the effectiveness of the Board. Following the review, the Board is of the view that the Board and its Board Committees operate effectively.
- 5.4 The last Board of Directors' evaluation was conducted in January 2018 and the results have been presented to the Nominating Committee for discussion in February 2018. The Nominating Committee is satisfied that the Board has been effective as a whole and that each and every director has contributed to the effective functioning of the Board. In addition, the Nominating Committee is also satisfied that sufficient time and attention has been given by the directors to the affairs of the Company, notwithstanding that some of the directors have multiple board representations.

### **ACCESS TO INFORMATION**

#### **Principle 6**

In order to fulfill their responsibilities, board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

- 6.1 The Board is provided with complete and adequate information prior to Board meetings and on an on-going basis. The Company circulates copies of the minutes of all Board and Board Committees meetings to all members of the Board to keep them informed of on-going developments within the Group. The Board also has separate and independent access to management.
- 6.2 Information provided to the Board include financial management reports, reports on performance of the Group against the budget with notes on any significant variances, papers pertaining to matters requiring the Board's decision, updates on key outstanding issues, strategic plans and developments in the Group.
- 6.3 The directors have separate and independent access to the Company Secretary at all times. The Company Secretary attends all Board and Committee meetings and is responsible for ensuring that Board procedures are followed. The Company Secretary assists management in ensuring that the Company complies with rules and regulations which are applicable to the Company.
- 6.4 The Board is involved in the appointment and removal of the Company Secretary.
- 6.5 The Company has in place procedures for directors to seek independent advice, where necessary, in the furtherance of their duties and at the Company's expense.

# C O R P O R A T E G O V E R N A N C E R E P O R T

## **REMUNERATION MATTERS**

### **Procedures for Developing Remuneration Policies**

#### **Principle 7**

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The Remuneration Committee comprises:–

Dr Tay Kin Bee	(Chairman and Independent Non-executive Director)
Mr Lee Bon Leong	(Member and Independent Non-executive Director)
Mr Chan Kam Loon	(Member and Lead Independent Non-executive Director)

- 7.1 The members of the Remuneration Committee are all independent non-executive directors.
- 7.2 The Remuneration Committee's principal responsibilities are to:–
  - (a) review and recommend to the Board for endorsement an appropriate framework of remuneration and the specific remuneration packages for each director and the Managing Director;
  - (b) review and recommend to the Board for endorsement an appropriate framework of remuneration for key management personnel to ensure that the level of remuneration is competitive and appropriate to attract, retain and motivate them to run the Group successfully; and
  - (c) administer any employee share scheme that the Company may have.
- 7.3 If necessary, the Remuneration Committee shall seek expert advice on remuneration of all directors. The Remuneration Committee shall ensure that any relationship between the appointed consultant and any of its director or Company will not affect the independence and objectivity of the remuneration consultant. The Remuneration Committee, in considering the remuneration of all directors, has not sought external advice nor appointed remuneration consultants.
- 7.4 The Remuneration Committee reviews the service contracts of the executive directors to ensure that the contracts, including any termination clauses, are fair and reasonable.
- 7.5 None of the Remuneration Committee or directors is involved in deliberations in respect of any remuneration, compensation or any form of benefit to be granted to himself.

## **LEVEL AND MIX OF REMUNERATION**

#### **Principle 8**

The level and structure of remuneration should be aligned with the long-term interest and risk policies of the Company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the Company, and (b) key management personnel to successfully manage the Company. However, companies should avoid paying more than is necessary for this purpose.

- 8.1 Executive directors' remuneration package and key management personnel's remuneration framework are structured in a way that links rewards to corporate and individual performance and takes into account industry benchmarks. The review of remuneration packages also takes into consideration the pay and employment conditions within the industry and the long term interests of the Group. The review covers all aspects of remuneration including salaries, fees, allowances, bonuses, share options and benefits-in-kind. The Remuneration Committee's recommendations are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board.
- 8.2 The Company had in place an Employee Share Option Scheme that serves to provide a longer term incentive better aligned with long term performance of the Company and of the employee. The scheme had expired and the Company had not granted any share options under the scheme.

## CORPORATE GOVERNANCE REPORT

- 8.3 Remuneration of independent directors is set at a level commensurate with the level of responsibility and after taking into account industry benchmarks. The Company believes that the current remuneration of independent directors is at a level that will not compromise the independence of the directors.
- 8.4 The Company currently does not have any contractual provisions to allow the Company to reclaim incentive from executive directors and key management personnel in exceptional cases of wrongdoings.

**DISCLOSURE ON REMUNERATION****Principle 9**

Each Company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the Company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

- 9.1 Remuneration of the executive directors is stipulated in their respective service agreements with the Company (the "Service Agreements"). Under the provisions of the Service Agreements, the executive directors shall be paid a monthly base salary and annual wage supplement and be provided with benefits commensurate with the position. The executive directors shall participate in a profit sharing scheme whereby the amount is calculated based on a formula of audited Group's net profit before tax, minority interest and other fixed portion of remuneration entitlements. The executive directors do not receive directors' fees and there are no post retirement and severance benefits except the common practice of giving notice or salary in lieu of notice in the event of termination.
- 9.2 The remuneration of executive directors of the Company for FY 2017 is set out below:—

% Breakdown of Remuneration				
Name of Director	Remuneration band	Base salary	Bonus	Benefits in kind
Mr Sidney Chew Choon Tee	Band C	72%	20%	8%
Mr Jeffrey Tan Bock Chia	Band C	72%	19%	9%

For the above disclosures, the category of remuneration band is as follows:—

Band A: Below S\$250,000

Band B: S\$250,000 to below S\$500,000

Band C: S\$500,000 to below S\$750,000

Having considered the sensitivity and confidentiality of the remuneration package, the Company took the view that disclosing the specific amount of remuneration of the directors may not be in the best interest of the Company. Therefore, no disclosure of the specific remuneration is made.

Independent directors are paid only directors' fees, subject to approval at the annual general meeting. The fees paid to independent directors comprise a basic fee, a fee for chairing a committee and a fee for being a member of the committee. For FY 2017, total of S\$146,000 was paid to independent directors.

The remuneration of independent directors of the Company for FY 2017 is set out below:—

Name of Director	Directors' fees
Mr Lee Bon Leong	Band A
Mr Chan Kam Loon	Band B
Dr Tay Kin Bee	Band A

## CORPORATE GOVERNANCE REPORT

For directors' fees disclosure, the category of remuneration band is as follows:–

Band A: Below S\$50,000

Band B: S\$50,000 to below S\$100,000

Mr Toshiyuki Yokogawa, the Non-executive director of the Company, did not receive any remuneration for FY 2017.

Having considered the sensitivity and confidentiality of the remuneration package, the Company took the view that disclosing the specific amount of remuneration of the independent directors may not be in the best interest of the Company. Therefore, no disclosure of the specific remuneration is made.

9.3 The remuneration of top 5 executives of the Group (who are not also directors) for FY 2017 is set out below:–

Remuneration band	No of Executives
Band B	4
Band A	1

For the above disclosures, the category of remuneration band is as follows:–

Band A: Below S\$250,000

Band B: S\$250,000 to below S\$500,000

Band C: S\$500,000 to below S\$750,000

Having considered several factors including the competitive hiring conditions and talent retention, the Company took the view that disclosing names of the key executives, the breakdown of their remuneration and the aggregate of all their remunerations may not be in the best interest of the Company. Therefore, no such disclosure is made.

9.4 The remuneration of an employee who is an immediate family member of Mr Sidney Chew Choon Tee, for FY 2017 is set out as below:–

Name of employee	Remuneration band	% Breakdown of Remuneration		
		Base salary	Bonus	Benefits in kind
Ms Liao Bin Bin (spouse)	Band B	60%	35%	5%

For the above disclosures, the category of remuneration band is as follows:–

Band A: Below S\$250,000

Band B: S\$250,000 to S\$500,000

Band C: S\$500,000 to S\$750,000

Having considered several factors including the competitive hiring conditions and talent retention, the Company took the view that disclosing the remuneration of this employee in bands of S\$50,000 may not be in the best interest of the Company. Therefore, the remuneration is disclosed in bands consistent with the top 5 executives.

Bonus comprises of annual wage supplement and profit sharing or variable performance bonus, where appropriate, while benefits in kind refer to allowances and benefits provided. These components of remuneration include the corresponding employers' contribution to defined contribution plans.

## CORPORATE GOVERNANCE REPORT

- 9.5 The Company has not activated and granted any options under the Megachem Employee Share Option Scheme which has since expired.
- 9.6 The remunerations of the executive directors are linked directly to the Group's financial performance through a profit sharing formula as mentioned in paragraph 9.1.

### **ACCOUNTABILITY AND AUDIT**

#### **Principle 10**

The Board should present a balanced and understandable assessment of the Company's performance, position and prospects.

- 10.1 In presenting the annual financial statements and announcements of financial results to shareholders, it is the aim of the Board to provide shareholders with a balanced and understandable assessment of the Company's and Group's performance, position and prospects.
- 10.2 The Board keeps itself abreast and is kept informed by management of legislative and regulatory requirements. It is also guided by the Company's Catalyst sponsor, SAC Capital Private Limited, of any regulatory changes in the Listing Manual of the Singapore Exchange Securities Trading Limited Section B: Rules of Catalyst ("Catalist Rules").
- 10.3 The management currently provides the Board with appropriately detailed management reports of the Group's performance and position on a quarterly basis.

### **RISK MANAGEMENT AND INTERNAL CONTROLS**

#### **Principle 11**

The Board is responsible for the governance of risk. The Board should ensure that management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

- 11.1 The Board oversees management in the area of risk management and internal control system. The Board regularly reviews and improves the Company's business and operational activities to identify areas of significant risks as well as take appropriate measures to control and mitigate these risks.
- 11.2 Management provides reports of risk management to the Board on a quarterly basis. The Company's risk management framework and internal control system covers financial, operational, compliance and information technology risks and internal controls. Internal audit is outsourced to a third party professional firm. The Audit Committee evaluates the findings of the external and internal auditors on the Group's internal controls annually.
- 11.3 The Group's internal controls are designed to provide reasonable assurance with regard to the keeping of proper accounting records, integrity and reliability of financial information, and physical safeguard of assets. Management takes into consideration the risks which the Group is exposed, the likelihood of occurrence and the cost of prevention while designing internal controls.

Based on reports submitted by the external and internal auditors, and the system of internal controls, including financial, operational, compliance and information technology controls, and risk management systems maintained by the management that was in place throughout the financial year and up to the date of this report, the Board, with the concurrence of the Audit Committee and the assurance of the management (including the Managing Director and CFO), is of the opinion that (a) the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances and (b) the Group's system of internal controls, including financial, operational, compliance and information technology controls, and risk management systems are adequate and effective as at the date of this report.

However, the Board and management acknowledge that no system can provide absolute assurance against the occurrence of material errors, poor judgement in decision-making, human errors, losses, fraud or other irregularities.

- 11.4 The Board collectively oversees risk management and does not have a separate risk committee.

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE

### Principle 12

The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

12.1 The Audit Committee comprises:–

Mr Chan Kam Loon (Chairman and Lead Independent Non-executive Director)  
Mr Lee Bon Leong (Member and Independent Non-executive Director)  
Dr Tay Kin Bee (Member and Independent Non-executive Director)

The Audit Committee members are all independent non-executive directors.

12.2 The Audit Committee members have many years of experience in their respective fields of accounting, audit, financial management, law and business. The Board considers that the members of the Audit Committee are appropriately qualified to discharge the responsibilities of the Audit Committee.

12.3 The Audit Committee has the authority to investigate any matters within its terms of reference and the discretion to invite any director to attend its meetings. The management shall grant full cooperation and resources to enable it to discharge its functions properly.

12.4 The Audit Committee's main functions are to:–

- (a) review the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and the Group and any announcements relating to the Group's financial performance;
- (b) review and report to the Board annually the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls;
- (c) review effectiveness of the Company's internal audit function;
- (d) review the scope and results of the external audit and the independence and objectivity of the external auditors;
- (e) make recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approve the remuneration and the terms of engagement of the external auditors;
- (f) review the Group's results announcements, consolidated financial statements and other documents accompanying the same before they are recommended to the Board for approval; and
- (g) review and, where appropriate, approve interested person transactions.

12.5 The Audit Committee meets with the internal and external auditors annually to review the adequacy of audit arrangements, with particular emphasis on the scope and quality of their audits, and the independence and objectivity of the internal and external auditors. Where necessary, the Audit Committee may meet the external or the internal auditors without presence of management.

12.6 The Audit Committee reviews the independence of the external auditor annually. In the selection of suitable auditing firms, the Audit Committee takes into consideration several factors such as the adequacy of the resources, experience of the accounting auditing firm, the audit engagement partner assigned to the audit, the firm's other audit engagements, the size and complexity of the Group being audited, and the number and experience of supervisory and professional staff assigned to the audit and its ability to provide audit service to our foreign subsidiaries and associated companies. The selected auditing firm based in Singapore is engaged as auditors for the Company as well as our Singapore-incorporated subsidiaries.

A different auditing firm is engaged as auditors for its associated company for FY 2017. The Audit Committee has considered the appointment of different auditing firms for its significant associated company and is satisfied that such appointment would not compromise the standard and effectiveness of the audit of these subsidiaries. The Company is thus in compliance with Rule 712, 715 and 716 as set out in Catalist Rules.

The Audit Committee conducts an annual review of all non-audit services provided by the auditors and is satisfied that the nature of such services does not affect the independence of the external auditors.



## CORPORATE GOVERNANCE REPORT

The fees for non-audit services rendered in FY 2017 amounted to S\$31,000, being fee charged by tax agents of the Company and its subsidiaries.

Fees on audit services to independent auditors:	S\$'000
– paid by Company and its subsidiaries in Singapore	103
– paid by other entities of the Group	106
<b>Total</b>	<b>209</b>
Other fees to independent auditors:	S\$'000
– paid by Company and its subsidiaries in Singapore	17
– paid by other entities of the Group	14
<b>Total</b>	<b>31</b>

- 12.7 The Company has established a Code of Business Ethics that sets the principles of business ethics for the Group and covers areas such as business conduct, protection of Company's assets, confidentiality of information and conflicts of interest. All staff of the Group are expected to uphold high standards of integrity that are in compliance with the Company's Code as well as laws and regulations of the countries in which it operates.

The Company has implemented a whistle-blowing program. Under the program, employees may raise concerns about possible improprieties in financial reporting or other matters orally via a hotline or in writing. Report made anonymously will not be considered unless as directed by the Audit Committee, having taken into account factors such as the severity of the matter raised. Upon receipt of a concern, independent investigation and appropriate follow up action will be taken.

- 12.8 The Audit Committee is updated annually on any changes in financial reporting standards by the external auditor. A copy of the Guidebook for Audit Committee is also made available for reference when clarifications need to be sought on responsibilities of the audit committee. The Audit Committee conducted two meetings in the FY 2017, during which results announcements, external audit report, internal audit report, independence of auditors, appointment of auditors and interested person transactions were reviewed, and the duties as described above were carried out.
- 12.9 No former partner or director of the Company's auditing firm has acted as a member of the Company's Audit Committee.
- 12.10 The following significant matters impacting the financial statements for FY 2017 were discussed with management and the external auditor and were reviewed by the Audit Committee:

Significant matters	How does the Audit Committee address the matter
Impairment of trade receivables	<p>The Audit Committee had reviewed management's approach and judgement in assessing collectibility of outstanding receivables, which includes a review of customers' credit worthiness, payment history and correspondences with customers.</p> <p>The Audit Committee was satisfied that the approach was appropriate and provision was adequate. The external auditor has included this item as a key audit matter in the audit report for FY 2017. Please refer to Pages 90 and 91 of this Annual Report.</p>
Impairment of inventories	<p>The Audit Committee had considered the methodology and management's technical judgement in assessing impairment of inventories, which includes a review of the ageing of inventory, sales prospects and sales price.</p> <p>The Audit Committee was satisfied that management's methodology was reasonable and carrying value of inventory was appropriate. The external auditor has included this item as a key audit matter in the audit report for FY 2017. Please refer to Page 91 of this Annual Report.</p>
Impairment of subsidiaries	<p>The Audit Committee had considered the methodology, estimates and assumptions used in assessing the impairment of subsidiaries, which includes cash flow forecasts and discount rates used.</p> <p>The Audit Committee was satisfied that management's methodology was reasonable and the impairment was adequate. The external auditor has included this item as a key audit matter in the audit report for FY 2017. Please refer to Page 92 of this Annual Report.</p>

# C O R P O R A T E G O V E R N A N C E R E P O R T

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## **INTERNAL AUDIT**

### **Principle 13**

The Company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

- 13.1 The internal auditor's primary line of reporting is to the Audit Committee. The Company cooperates fully with the internal auditor in terms of allowing access to documents and information.
- 13.2 The Company outsourced its internal audit function to an internationally recognized third party professional firm.
- 13.3 The Audit Committee is satisfied that the internal auditor appointed by the Company has adequate resources and experience.
- 13.4 The Audit Committee had reviewed and approved the internal audit plan and reviewed the results of the internal audit. The Audit Committee is satisfied that the internal audit work is carried out in accordance with the Standards for Professional Practice of Internal Auditing set by The Institute of Internal Auditors.
- 13.5 The Audit Committee reviews the adequacy and effectiveness of the internal audit function on an annual basis and is satisfied with its adequacy and effectiveness.

## **SHAREHOLDERS RIGHTS**

### **Principle 14**

Companies should treat all shareholders fairly and equitably, and should recognize, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

- 14.1 The Company ensures that timely and adequate disclosure of information on matters of material impact on the Company are made to shareholders of the Company, in compliance with the requirements set out in the Catalist Rules. In this respect, the Company announces its financial results to shareholders on a half-yearly basis. The Company notifies the public in advance of the date of release of its financial results through an announcement on SGXNET.
- 14.2 Shareholders are given the opportunity to participate in and vote at general meetings.
- 14.3 The Company's Constitution currently allows shareholders to appoint up to two proxies to attend and vote at general meetings without differentiating corporation that provide nominee or custodial services and individual shareholder. Relevant intermediary is entitled to appoint more than two proxies to attend and vote at our general meetings pursuant to the legislative amendment in January 2016.

## **COMMUNICATION WITH SHAREHOLDERS**

### **Principle 15**

Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

- 15.1 An investor relations strategy is in place which sets the policies to regularly, fairly and effectively communicate with our shareholders.

Please refer to Investor Relations section of this Annual Report.

- 15.2 Information is disclosed timely to our shareholders through SGXNET and is also made available on our Company's website. The Company ensures that all shareholders are treated fairly by providing all shareholders the same information at the same time. The Company does not practice selective disclosure of material information.

## CORPORATE GOVERNANCE REPORT

- 15.3 The Company maintains regular dialogue with shareholders through online Q&A, analyst briefings and at the general meetings.

Analyst briefings are conducted for members of the investment community and media after each results announcement. Key management personnel including the Managing Director, Executive Director and Chief Financial Officer are present in these briefings. An online Q&A session is also conducted after each result announcement for shareholders to raise their queries with regard to the results. The results announcement, the analyst briefings presentation and the online Q&A are all published on SGXNET and are also made available on the Company's website, www.megachem.com and investors' relations website, www.shareinvestor.com.

- 15.4 Shareholders are given the opportunity to air their views via the online Q&A, analyst briefings and at general meetings.

- 15.5 In its consideration for dividend payment, the Company takes into account, among other factors, current cash position, future cash needs, profitability, retained earnings and business outlook. The Company takes the view that committing to a fixed dividend policy may jeopardise its financial position in times of adverse changes in market conditions. Hence it does not disclose a dividend policy to its shareholders. Nevertheless, it has been making dividend payments every year since its initial public listing. For FY 2017, the Company had paid an interim dividend of 0.5 cents per share and is recommending a final tax exempt dividend of 0.7 cents per share, subject to approval at the annual general meeting.

### **CONDUCT OF SHAREHOLDER MEETINGS**

#### **Principle 16**

Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the Company.

- 16.1 General meetings are held in Singapore. At such meetings, shareholders of the Company are given the opportunity to air their views and ask the directors questions regarding the Company.
- 16.2 Resolutions at general meetings are on each substantially separate issue. The Company avoids bundling resolutions unless they are interdependent and linked.
- 16.3 All directors are present at general meetings to address any questions that shareholders may have. The external auditors are also present to assist the Board in addressing queries by shareholders relating to the conduct of the audit and the preparation of and content of the auditors' report.
- 16.4 Minutes of general meeting are made available to shareholders upon their request.
- 16.5 The Company adopts voting by poll for all resolutions in annual general meeting in accordance with the requirement of the Catalist Rules.

### **DEALINGS IN SECURITIES**

The Company has complied with the best practices pursuant to Rule 1204(19) of the Catalist Rules in relation to dealings in the Company's securities by its directors and employees. The Company has established internal policy to inform its directors and employees not to deal in the Company's shares whilst they are in possession of unpublished material price sensitive information and during the period commencing one month prior to the announcements of the Company's financial results and ending on the date of announcements of such financial results. Directors and employees are also discouraged from dealing in the Company's securities on short-term considerations.

### **MATERIAL CONTRACTS**

Save for the Service Agreements mentioned in paragraph 9.1 above and transactions as disclosed in the "Interested Person Transactions" section below, there were no material contracts entered into by the Company or any of its subsidiaries involving the interest of the Managing Director, any director, or controlling shareholder.

# CORPORATE GOVERNANCE REPORT

## INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the Audit Committee and that transactions are conducted on an arm's length basis and are not prejudicial to the interests of the shareholders.

The aggregate value of interested person transactions entered during FY 2017 were as follows:–

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.	Nil (Note 3)	Nil (Note 3)
Purchase of products from SPCI Pte Ltd, a company of which Dr Tay Kin Bee is also a director.	(Note 4)	Nil (Note 4)
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 22 February 2018.

## CORPORATE GOVERNANCE REPORT

**DIRECTORS AND COMMITTEE MEETINGS**

The number of Board of Directors and other committees meetings and the record of attendance of each director for FY 2017 is set out below:–

Name of Director	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Mr Sidney Chew Choon Tee	4	4	2	Na	1	1	1	Na
Mr Jeffrey Tan Bock Chia	4	4	2	Na	1	Na	1	Na
Mr Lee Bon Leong	4	4	2	2	1	1	1	1
Mr Chan Kam Loon	4	4	2	2	1	1	1	1
Dr Tay Kin Bee	4	4	2	2	1	Na	1	1
Mr Toshiyuki Yokogawa	4	4	2	Na	1	Na	1	Na

Na: not applicable

**NON-SPONSOR FEES**

No fees relating to non-sponsor services was paid to its sponsor, SAC Capital Private Limited, in FY 2017.

# INVESTOR RELATIONS

## IR Contact

### Company

Francis Yau Thiam Hwa  
Chief Financial Officer  
Megachem Limited  
Tel: 6933 9999  
Email: fsyau@sg.megachem.com

### External Consultant

Dolores Phua  
Citigate Dewe Rogerson Singapore Pte Ltd  
Tel: 6534 5122  
Email: dolores.phua@citigatedewerogerson.com

For more information, please visit  
[www.megachem.com](http://www.megachem.com)

Megachem views Investor Relations (“IR”) as a strategic management responsibility that integrates corporate governance, compliance and communication with the aim to preserve our shareholders’ assets and enhance shareholders’ values.

We place great emphasis on effective communication with our shareholders. In this aspect, we endeavour to provide timely and adequate information to shareholders and effective channels for shareholders communication.

The following sections outline Megachem’s IR objectives, practices, activities and tools employed to engage and communicate with the investing community.

- Provides results announcements that are timely with emphasis on responsible financial reporting, business updates and prospects;
  - Gives advance notice of the date of announcement of our results;
  - Provides business updates where necessary to allow shareholders and investors to understand any significant changes in market trend and its impact on our business;
  - Provides detailed accounts of the financial results and operating strategy in our annual report;
    - Provides investor relations strategy that indicates internal and external IR contacts as well as IR websites;
- In order to provide expert independent views on the Company’s performance, NRA Capital Pte Ltd provides stock analysis reports of each of our results announcement. These reports are posted on the Company’s website.
- The results announcements, the analyst briefings presentation and the on-line Q&A are all published on SGXNET and are also made available on the Company’s and IR websites. Investors can also view a webcast recording of the analyst briefing at the Company’s and IR websites.
- We encourage greater shareholder participation at our general meetings by giving them opportunity to air their views and to post questions regarding the company to directors and management.
- Adopts a focused internal IR structure which is supported by appointing external IR advisors, Citigate Dewe Rogerson Singapore Pte Ltd;
  - Deploys a dedicated IR website [www.shareinvestor.com](http://www.shareinvestor.com) which is regularly updated;
  - Conducts half-yearly results briefings and online Q&A session;
    - Senior management including our Managing Director, Executive Director and Chief Financial Officer are present in these briefings.
    - Members of the financial community and media are invited to attend these briefings.
    - Supported by webcast made available on the Company’s website [www.megachem.com](http://www.megachem.com) and the IR website.

## INVESTOR RELATIONS



### ACCOLADES

As testimony to our high level of transparency and corporate governance, we have been accorded the following:

#### 2017

SINGAPORE CORPORATE AWARDS:  
**Best Annual Report Award (Gold)** in the “less than \$300 million market capitalisation” category

**Ranked 56<sup>th</sup>** in the BT Governance and Transparency Index

#### 2016

SINGAPORE CORPORATE AWARDS:  
**Best Annual Report Award (Silver) and Best Investor Relations Award (Gold)** in the “less than \$300 million market capitalisation” category

SIAS INVESTORS’ CHOICE AWARDS:  
**Most Transparent Company**  
(Runner up) (Catalist category)

**Ranked 37<sup>th</sup>** in the BT Governance and Transparency Index

#### 2015

SINGAPORE CORPORATE AWARDS:  
**Best Managed Board (Gold), Best Chief Financial Officer, Best Annual Report Award (Silver) and Best Investor Relations Award (Bronze)** in the “less than \$300 million market capitalisation” category

SIAS INVESTORS’ CHOICE AWARDS:  
**Most Transparent Company**  
(Runner up) (Catalist category)

**Ranked 60<sup>th</sup>** in the BT Governance and Transparency Index

IR MAGAZINE AWARDS:  
**Best Investor Relations** by an SGX Catalist company

#### 2014

SINGAPORE CORPORATE AWARDS:  
**Best Investor Relations Award (Bronze) and Best Annual Report Award (Bronze)** in the “less than \$300 million market capitalisation” category

**Ranked 64<sup>th</sup>** in the BT Governance and Transparency Index

#### 2013

SIAS INVESTORS’ CHOICE AWARDS:  
**Most Transparent Company**  
(Catalist category)

SINGAPORE CORPORATE AWARDS:  
**Best Annual Report (Silver)** (category for companies with less than \$300 million market capitalisation)

IR MAGAZINE AWARDS:  
**Best Investor Relations** by an SGX Catalist company

**Ranked 49<sup>th</sup>** in the BT Governance and Transparency Index

#### 2012

SINGAPORE CORPORATE AWARDS:  
**Best Annual Report (Bronze)** (category for companies with less than \$300 million market capitalisation)

**Ranked 115<sup>th</sup>** in the BT Governance and Transparency Index

#### 2011

SINGAPORE CORPORATE AWARDS:  
**Best Annual Report (Bronze)** (category for companies with less than \$300 million market capitalisation)

**Ranked 62<sup>nd</sup>** in the BT Governance and Transparency Index

#### 2010

**Ranked 235<sup>th</sup>** in the BT Governance and Transparency Index

#### 2009

**Ranked 196<sup>th</sup>** in the BT Governance and Transparency Index

#### 2007

SINGAPORE CORPORATE AWARDS:  
**Best Annual Report (Bronze)** (Sesdaq category)

#### 2006

SINGAPORE CORPORATE AWARDS:  
**Best Annual Report (Silver)** (Sesdaq category)

# R I S K M A N A G E M E N T

Recognizing the importance of risk management in providing sustainability to our business and in preserving our shareholders' value, Megachem is committed to incorporate effective risk management practices into our organizational processes to mitigate and manage each of these risks.

Megachem has identified 4 main risk components within its risk management framework.

## A. STRATEGIC RISK

The Executive Committee and Board members collectively formulates the strategy and charts the directions for the Group. The progress of implementation of the strategy is monitored and reviewed annually. In the process of strategy formulation and review, we evaluate the external environmental factors such as the risk profile of the industry, competitive forces within the industry, opportunities and threats, as well as the internal factors such as our key competitive strengths and weaknesses, our market position and growth strategy.

The Company views the current strategy of building our growth around our distribution and contract manufacturing activities as the 2 pillars of growth and the business model of diversification in terms of markets, customers, products and suppliers as being robust and sustainable.

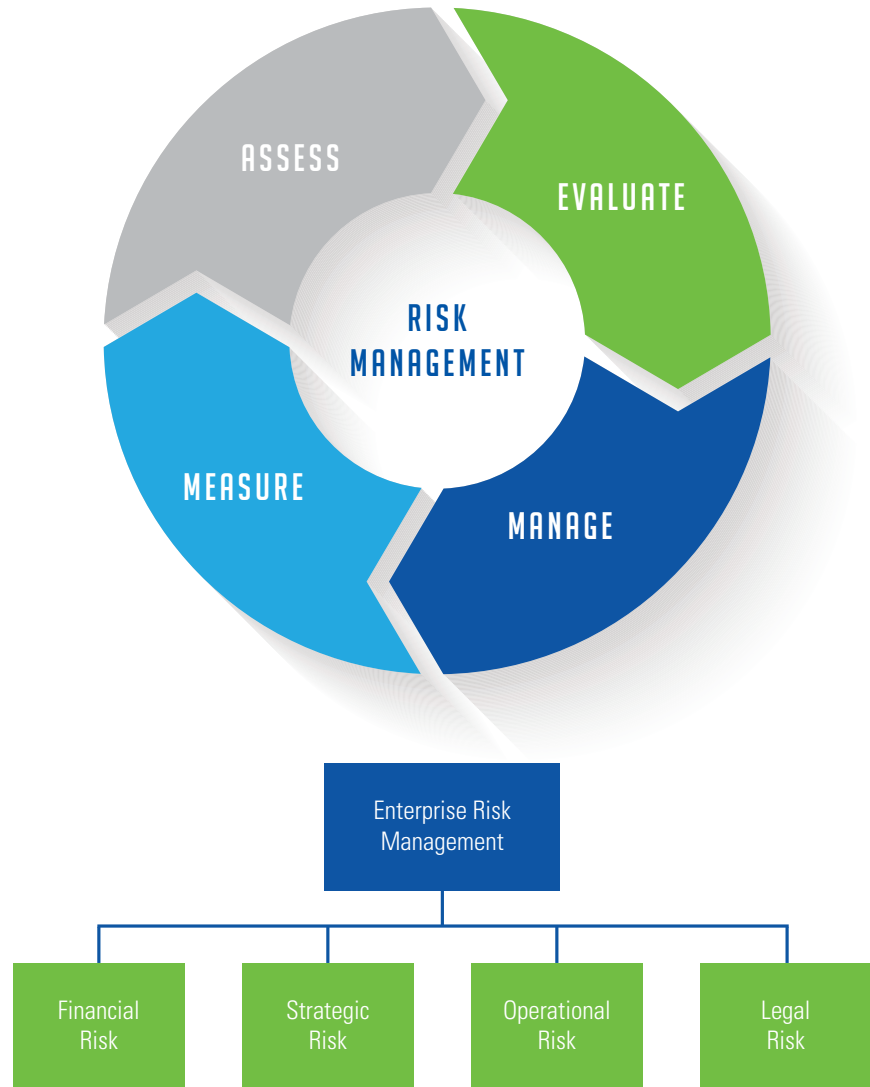
## B. FINANCIAL RISK

Megachem's activities expose it to a variety of risks and unpredictability of the financial markets such as changes in foreign currency exchange rates and interest rates. The following sections outline the practices with respect to our financial risk management.

### Foreign Currency Risk

We operate internationally and is exposed to foreign currency risks arising from various currency exposures primarily with respect to United States Dollar, Euro Dollar, Sterling Pound, Japanese Yen and Malaysian Ringgit.

Forward currency contracts are entered into to hedge certain of its exposures to foreign currency risk. General guidelines are set with regard to the level of hedging and the type of hedging instruments that Megachem undertakes. Authority matrix is also in place that sets the authorized personnel and his/her authorization limits for hedging.



The Executive Committee monitors the foreign currency exposure on a monthly basis through monthly executive committee reports.

### Interest Rate Risk

Interest rate risk arises mainly from our borrowings which are mainly at floating interest rates. Megachem manages its interest rate risk by keeping borrowings to the minimum required to sustain our operations.

### Credit Risk

We sell our products globally which thus increases the risk of payment default by our customers. We manage our credit risk by diversifying credit risk exposure and dealing with high credit quality counterparties. As such, Megachem has no significant concentration of credit risk. Policies are in place to ensure that the sale of products and services are made to customers with an appropriate credit history and obtaining sufficient security and/or credit insurance where appropriate to mitigate credit risk.



## RISK MANAGEMENT

### Liquidity Risk

We manage liquidity risk by maintaining sufficient cash balances and availability of funding through an adequate amount of credit facilities at all times.

### Capital Risk

Our objectives when managing capital are to safeguard Megachem's ability to continue its business operations as a going concern and to maintain an optimal capital structure so as to maximise shareholders' value.

In order to maintain or achieve an optimal capital structure, we seek to strike a balance between debt and equity and capping our financial gearing at a comfortable level.

## C. OPERATIONAL RISK

### IT Security

Megachem adopts the following 3 key principles in its IT security management:

Confidentiality – information should not be disclosed to unauthorized individuals or systems.

Integrity – important data should not be modified by unauthorized individuals or systems.

Availability – information should be readily available when needed even at times of any disruption.

With this in mind, we have in place the following measures:

- physical security is enhanced by installing security cameras at our premises which can be monitored via IP addresses;
- content filtering has been enabled to prevent viewing inappropriate web sites or content and also to prevent access by known malware hosts;
- disaster recovery procedures are implemented such that in the event of any system breakdown, our operation can continue with little disruption. Key applications can be run at third party disaster recovery sites located away from our premises. Overseas operations will also be able to access the disaster recovery sites via virtual private network access;

- databases are backed up daily and kept in fire rated safe at disaster recovery sites;
- policies are documented and our people are constantly oriented to adhere to the approved policies and procedures; and
- internal and external IT security audits are conducted annually.

### Process Execution

Failure in operational and business processes can jeopardize our Company's competitiveness. In order to minimize process risk, we seek to standardize our processes throughout its entire organization by adopting international Quality Management standards within the framework of ISO9001. Guided by this Quality Management System, we are able to consistently deliver quality in our products and services with an impeccable level of service.

### Business Continuity

For the same reason as explained above, Megachem has implemented a Business Continuity Management ("BCM") program which aims to ensure continuity of our key functions and processes, in part and/or in whole in the event of any unforeseen disruptions, in order to fulfill our obligations and to protect our reputation and branding.

The BCM program involves the integration of management, people, system and facilities. The framework covers:

- conducting context analysis and understanding needs and expectation of interested parties such as our customers, regulators, government agencies etc;
- conducting risk assessment and business impact analysis periodically;
- evaluating recovery strategies to be implemented; and
- documenting and communicating detailed plans and measures to recover, restore and return business processes to pre-incident level to all interested parties.

Megachem is proud to achieve ISO22301: 2012 certification for our BCM program in September 2016.

## D. LEGAL RISK

### Business Ethics

Compliance with rules and regulations is set as a fundamental principle with which we conduct our business. Through staff induction program and continuous education, this principle is being reinforced to ensure that we continue to comply with all relevant rules and regulations.

Anti-graft laws are increasingly being enacted globally such as the US Foreign Corrupt Practices Act and UK Anti-Bribery Act. Recognizing the adverse impact of non-compliance on our Company's reputation and the potential loss of business, Megachem puts integrity at the core of our corporate value system. The business conducts of all employees of the Group are guided by a Business Ethics Guide which provides guidance on areas such as anti-bribery, corruption, conflict of interest, Intellectual Property protection, insider trading and fraud. These Codes of Ethics are strictly binding for all employees in the respective countries in which we operate. Trainings are provided during staff induction program and refresher trainings are also provided. This Code demonstrates our commitment to integrity in the workplace and in the way we conduct our business.

### Industry Specific Regulations

Various government agencies also imposed industry-specific regulations. In this area we collaborate closely with these agencies on educational programs and exercises to keep ourselves up to speed with changes in their rules and regulations. (For more information, please refer to Sustainability: Health, Safety and Environment section.)

### Stock Exchange Listing Rules

Guided by our Catalist Sponsor, listing rules are constantly being observed and followed. All announcements are perused by our Catalist Sponsor before they are released. Our Catalist Sponsor is also frequently being engaged in board discussion on matters relating to listing rules compliance.



S U S T A I N A B I L I T Y

# S U S T A I N A B I L I T Y R E P O R T



WE ARE STRENGTHENING THE SUSTAINABILITY GOVERNANCE IN OUR BUSINESSES AND THE SAFETY ASPECTS OF OUR OPERATIONS. THIS INCLUDES CRUCIAL MINDSET AND CULTURE SHIFTS REQUIRED IN ORDER TO PUSH THE SUSTAINABILITY AGENDA FORWARD.

## BOARD STATEMENT

At Megachem, we view Sustainability as a shared responsibility towards improving not only our business but also our planet and our lives.

Today our world is confronted with unprecedented challenges such as climate change, scarcity of natural resources, poverty, human health and safety.

As a company we do not exist in a vacuum. We are part of the economic, environmental and social ecosystem. We will therefore work closely with all our stakeholders to enhance and integrate sustainability into our business models.

During the year of 2017, we have made progress in our sustainability journey. The key achievements are as follows:

### Governance

- In the BT Governance and Transparency Index, we have once again been ranked highly among the listed companies in Singapore.
- At the Singapore Corporate Awards 2017, Megachem won Best Annual Report (Gold) in the "less than S\$300 million market capitalization" category.

### Environment/Health/Safety

- In recognition of our efforts in meeting international environment, health and safety

standards, the Singapore Chemical Industry Council again accorded us, at Responsible Care Awards 2017, a Gold Award under the Community Awareness and Emergency Response Code.

Looking ahead, there will be 2 key areas of focus:

- As a distributor of chemicals, we will set out to expand our product portfolio with more sustainable products that has lessor environmental impact.
- Major stakeholders in the chemical industry are striving towards higher standards of Sustainability practices. As a member of this industry, we have a responsibility to work with our suppliers and customers towards achieving this cause.

Every day, we shall strive with passion to make a lasting, positive difference in people's lives and embed this value into our corporate culture.

This report is a stamp of our commitment towards making a difference to our planet and our lives. This is our Journey towards the Megachem's Sustainability Vision.

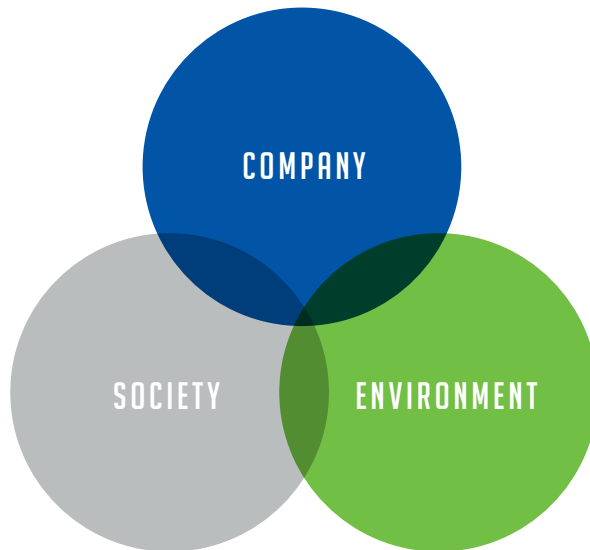
Chairman  
**Sidney Chew**

On behalf of Megachem's  
Board of Directors

# SUSTAINABILITY REPORT

## ORGANISATIONAL PROFILE

### Megachem Sustainability Vision



For Megachem, our Sustainability Vision is to align our economic success with environmental and social responsibility. We recognize that the environmental and social interaction with our community affect our long term organizational success and thus the need to manage not only corporate and financial performance but also the environmental and social impact of our business.

Guided by our Sustainability Vision, our objectives are to:

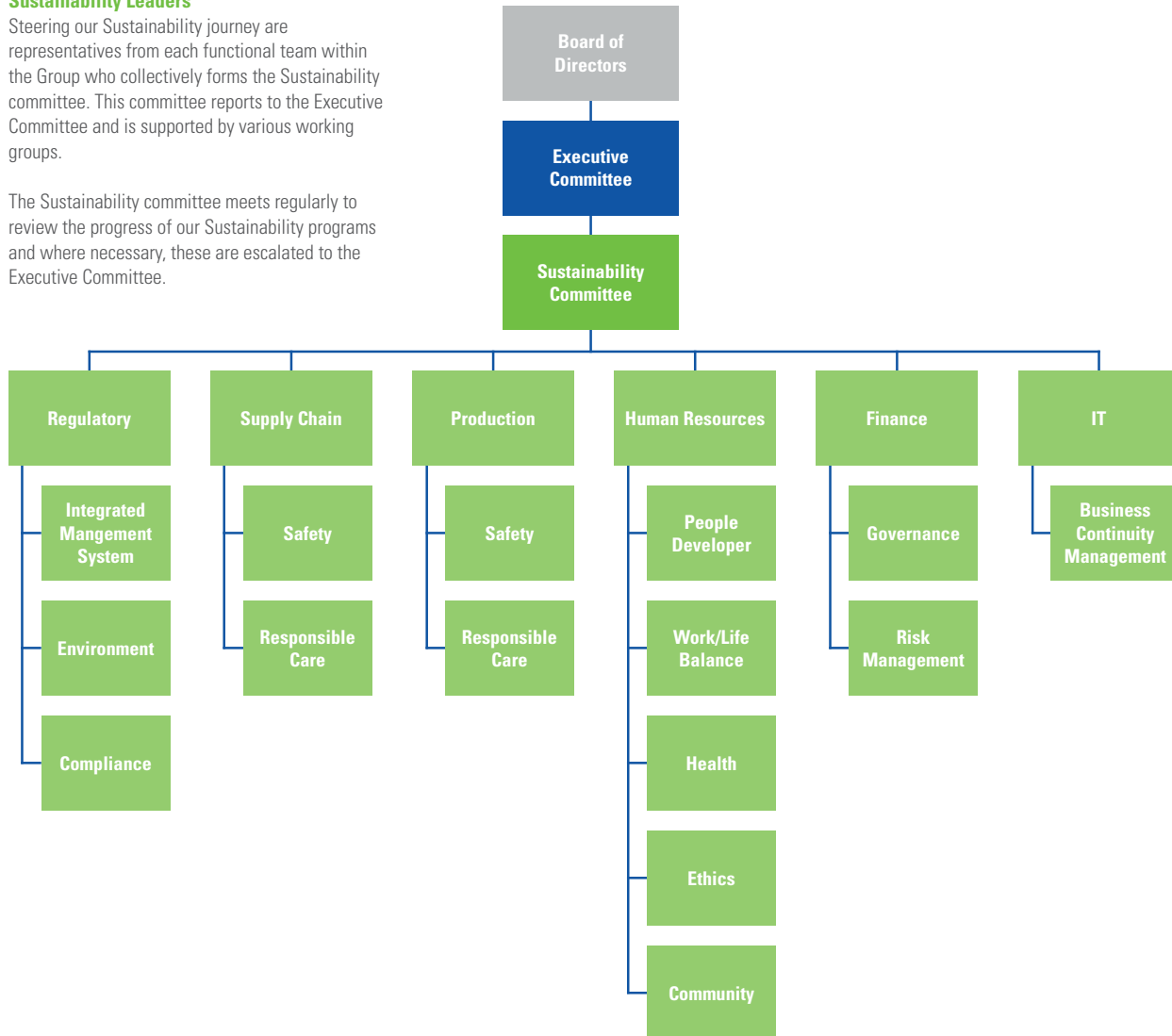
- achieve high standards of health and safety throughout our value chain;
- protect our environment;
- be a preferred employer by providing a working environment where people can feel a sense of belonging;
- adopt best business practices and comply with all applicable rules and regulations;
- manage our risk to safeguard our economic sustainability; and
- be a responsible member of society.

## SUSTAINABILITY REPORT

### Sustainability Leaders

Steering our Sustainability journey are representatives from each functional team within the Group who collectively forms the Sustainability committee. This committee reports to the Executive Committee and is supported by various working groups.

The Sustainability committee meets regularly to review the progress of our Sustainability programs and where necessary, these are escalated to the Executive Committee.



### External Charters, Principles or Other Initiatives

Megachem is committed to conduct our business in a responsible and sustainable manner. We have therefore aligned our operations and business practices with industry/market accepted principles and standards such as:

- Responsible Care® – a global environmental, health and safety (EHS) performance initiative for the chemical industry,

- Integrated Management System (ISO9001, OHSAS18000, ISO14000) and ISO22301, a system that integrates all of an organization's policies, processes and procedures into one complete framework, enabling an organization to work as a single unit with unified objectives,
- People Developer – a certification that recognizes organizations that invest in their people and have a comprehensive system to manage the development of their people.

### Member of Industry Associations

We are a member of Singapore Chemicals Industry Council and collaborate with them to continuously improve EHS performance in the chemical industry.

# S U S T A I N A B I L I T Y R E P O R T

## MATERIALITY ASSESSMENT

### Process for defining report boundaries and content



The assessment of our Material Aspects are conducted in accordance with guidelines and framework established by GRI.

Our Sustainability Committee identified the material aspects based on feedback garnered from our stakeholders and internal reviews.

The material aspects are evaluated against 2 criteria: importance to stakeholders and importance to Megachem (in terms of the significance of its impact on economic, environment, social and governance).

These are then validated and approved by the Executive Committee headed by our Managing Director.

### Our Material Aspects

#### MATERIAL ASPECTS

##### GOVERNANCE

Governance

##### ECONOMIC

Economic Performance

##### ENVIRONMENT

Energy Efficiency  
Water Conservation  
Effluent & Waste Management  
Products & Services  
Environmental Compliance  
Transport

##### SOCIAL

##### Labour Practices & decent work

Employment  
Occupational Health & Safety  
Training and Education  
Diversity and Equal Opportunity

##### Society

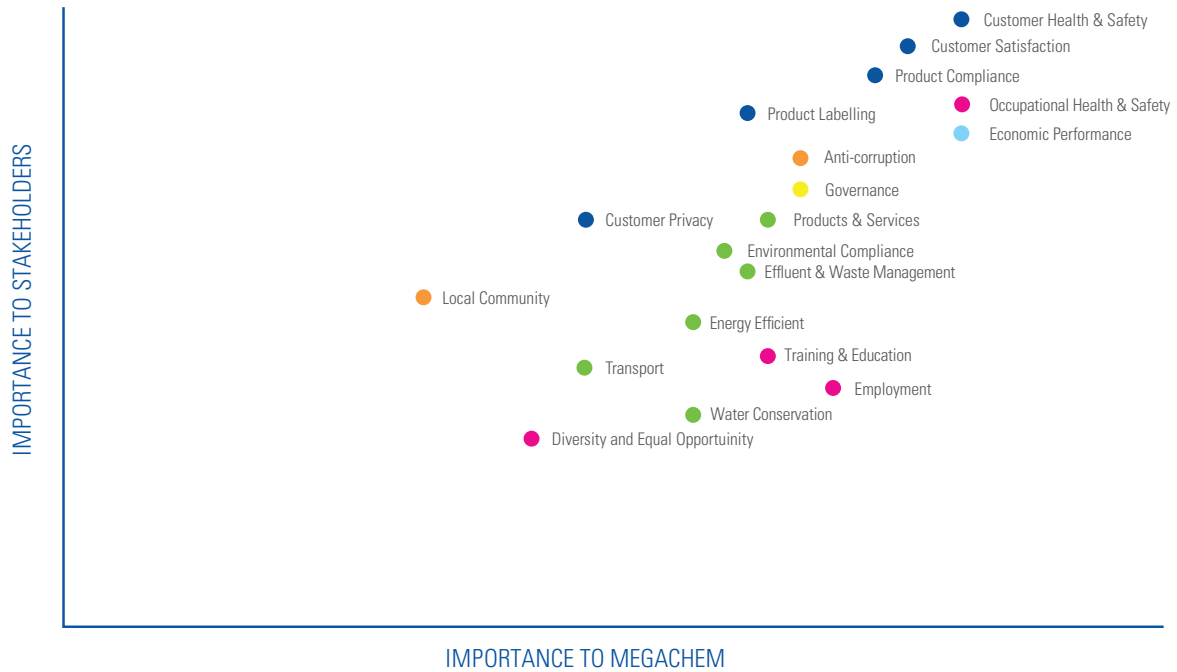
Local Community  
Anti-corruption

##### Product Responsibilities

Customer Health & Safety  
Product Labelling  
Product Compliance

## SUSTAINABILITY REPORT

### Materiality Matrix



### Aspect Boundaries

Within the Organisation:

All entities and employees within the Group (excluding associated company) unless otherwise stated.

Outside the Organisation:

Customers, suppliers, investors/shareholders, regulators and community.

# S U S T A I N A B I L I T Y R E P O R T

## STAKEHOLDERS ENGAGEMENT

Our Sustainability approach takes into account the sustainability issues facing our stakeholders. Their feedback helps us develop our materiality matrix and define our future targets.

These stakeholders are identified as being critical to our ability to implement our strategies and achieve our objectives.

To achieve this, we maintain a culture of engagement and a channel of open communication with our stakeholders.

STAKEHOLDERS	STAKEHOLDERS ENGAGEMENT	STAKEHOLDERS FEEDBACK
Employees	<p>Megachem views employee engagement as one of the crucial vehicle to drive business excellence and we do this through:</p> <ul style="list-style-type: none"> <li>• our Learning Needs Analysis which incorporates learning requirements on an organizational, functional and individual level and translates to a training blueprint for departmental and organizational-wide training,</li> <li>• Kaizen which focuses on continuous improvement and innovation through employees participation,</li> <li>• Employee Opinion Survey which is a communication channel for employees' feedback and opinion.</li> </ul>	<p>People Developer's report shows positive results especially in learning, development and innovative culture.</p>
Customers	<p>At the heart of our strategy is our customer-centric approach to conducting our business. Essential to this customer-centric approach is customer engagement.</p> <p>We engage with our customers:</p> <ul style="list-style-type: none"> <li>• through collaboration and regular visits,</li> <li>• customers' satisfaction survey where customers' feedback on Megachem's performance, products and services are garnered.</li> </ul>	<p>In the Customer Satisfaction Survey done in 2017, we scored well in the categories of sales support, responsiveness to customers and safety and environmental compliance.</p>
Suppliers	<p>We build close relationship with our valued suppliers to ensure deeper market penetration and supply continuity.</p> <p>We create a channel for feedback to our suppliers on the quality of products supplied to us.</p> <p>We also assess and audit our top suppliers to ensure we provide quality products to our customers through our vendor evaluation program.</p>	<p>Suppliers increasingly value the importance of sustainability in our working relationship with them.</p> <p>Megachem will consistently carry out our sustainability programs to meet requirements of suppliers.</p>



## SUSTAINABILITY REPORT

STAKEHOLDERS	STAKEHOLDERS ENGAGEMENT	STAKEHOLDERS FEEDBACK
Investors/Shareholders	<p>We place great emphasis on effective communication with our shareholders by providing the following channels of communication:</p> <ul style="list-style-type: none"> <li>• a dedicated IR website <a href="http://www.shareinvestor.com">www.shareinvestor.com</a> which is regularly updated and provides investors with email alerts of latest announcements</li> <li>• results briefings where analysts, investors and media are invited</li> <li>• online Q&amp;A are conducted with shareholders and investors</li> <li>• results announcements, results presentation, press releases, online Q&amp;A are made available at our website and at SGXnet</li> <li>• webcast of the results briefings are uploaded to our website</li> <li>• AGM where greater shareholders' participation are encouraged.</li> </ul>	We have been well-recognised in areas such as shareholders communication, transparency and governance.
Regulators	<p>We participate in seminars conducted by our stock market regulators to keep ourselves abreast of changes in rules and regulations.</p> <p>We conduct various exercises and events to educate our stakeholders the importance of safety.</p> <p>We seek to comply with regulatory bodies such as Singapore Civil Defence Force (SCDF), National Environment Agency (NEA), Singapore Police Force (SPF), Singapore Customs, Central Narcotics Bureau (CNB), Health Sciences Authority (HSA), Agri-Food &amp; Veterinary Authority (AVA).</p>	Company Emergency Response Team audit reveals good response to different emergency scenarios.
Community	We engage with our community by working with various social organisations as well as with various stakeholders such as supplier, customer, industry peers in increasing safety awareness.	We received positive response in our initiative.

# S U S T A I N A B I L I T Y R E P O R T

## REPORT PROFILE

This report summarises our approach and practices towards Sustainability and represents our belief that Sustainability is an important aspect of our business.

### REPORTING PERIOD

1 January 2017 –  
31 December 2017

### REPORTING CYCLE

Annual based on  
Megachem's financial year.

### METHODOLOGY

This is the second year we have produced our Sustainability reporting in accordance with GRI G4 – Core level guidelines. We have not sought external assurance for this report.

### FEEDBACK

We welcome feedback from all stakeholders. Please send questions, comments, suggestions or feedback relating to this report to [sustainability@sg.megachem.com](mailto:sustainability@sg.megachem.com).

### DATE OF MOST RECENT REPORT

Megachem has included Sustainability in its past 3 annual reports. This is Megachem's second report using GRI guidelines.

## SUSTAINABILITY REPORT

### GOVERNANCE

#### Corporate governance

##### Objective

To ensure that our business is sustainable, Megachem believes strongly in upholding the highest standards of corporate governance. We strive to ensure that the value of good governance is deeply embedded in our corporate culture and entrenched in our policies and processes.

##### Approach

We adopt the Code of Corporate Governance established by the Monetary Authority of Singapore and Stock Exchange of Singapore. Our Corporate Governance Code is reviewed and endorsed by our Board of Directors annually.

\*More details about our corporate governance practices can be found in the Corporate Governance Report section of this annual report.

### PERFORMANCE HIGHLIGHTS

As a testimony to our high level of corporate governance, Megachem has been accorded many awards. At the Singapore Corporate Awards 2017, Megachem Limited was awarded the Best Annual Report Award (Gold) in the "less than \$300 million market capitalisation" category. This is the ninth year out of 12 years that Megachem has won at least an award since the launch of the Singapore Corporate Awards in 2005.

In the BT Governance and Transparency Index ("GTI") which ranks listed companies on its governance and transparency practises, Megachem was ranked 56th in 2017 and attained a score of 74 and has been ranked highly among all the listed companies in Singapore.



#### GTI SCORE



#### GTI RANK



Megachem will continue to uphold the principles of good governance which in turn enhances the sustainability of our business.

#### Targets & Plans

To improve or maintain the current GTI score and ranking.

#### Ethics & Integrity

##### Objective

To uphold high standards of business ethics and integrity.

##### Approach

Megachem has established a Code of Business Ethics that sets the principles of business ethics for the Group and covers areas such as business conduct, protection of Company's assets, confidentiality of information, anti-bribery/corruption and conflicts of interest. All staff of the Group are expected to uphold high standards of integrity that are in compliance with the Code as well as laws and regulations of the countries in which it operates. Awareness is created by conducting briefings for all staff. All staff are also required to sign acknowledgement of their awareness of our Corporate Code of Conduct and declare any existing or potential conflicts of interest to the management.

# S U S T A I N A B I L I T Y R E P O R T

## Risk Management

### Objective

To ensure our business is sustainable and to preserve our shareholders' value.

### Approach

Recognising the importance of risk management in providing sustainability to our business and in preserving our shareholders' value, Megachem is committed to incorporate effective risk management practices into our organizational processes to mitigate and manage each of these risks.

\* More information on how we manage our risks can be found in the Risk Management section of this annual report.

### Performance Highlights

In the FY2017, a review of our enterprise risk management was conducted where significant risks, their impact and the mitigating factors were discussed and updated.

### Target and Plans

To conduct review of the risk assessment and mitigation factors in response to changes to internal and external factors.

## ECONOMIC

### Objective

To Create Long-term Sustainable Value for our shareholders.

### Approach

Megachem adopts a 2-pronged approach:

- preserve shareholders' value by building resilience throughout its business operations;
- enhance shareholders' value through a robust strategy with a focus on delivering long term sustainable growth.

## PERFORMANCE HIGHLIGHTS

	2014	2015	2016	2017
Net Profit after tax (S\$'mil)	3.2	3.3	2.2	4.2
Shareholders Equity (S\$'mil)	41.9	42.2	42.0	44.6
Earnings per share (cents)	2.08	2.22	1.53	3.18
Net Dividend/share (cents)	1.0	1.0	1.2	1.2
Dividend Yield %	3.0%	2.8%	3.0%	2.8%
Share Price Appreciation (%)	20.0%	0.0%	22.2%	-6.8%
Total Shareholders Return (%)	23.0%	2.8%	25.2%	-4.0%

## SUSTAINABILITY REPORT

### ENVIRONMENT

#### Objective

We are committed to environmental protection and conservation of resources.

#### Approach

Our efforts in this area includes reducing paper, electricity and water consumption, reducing waste water generation, paper recycling and adopting proper chemical waste treatment methods.



#### Energy

Most of our office lighting systems uses energy saving features to reduce electricity consumption.

Product and sales information such as product and material safety data sheets are maintained in our system and transmitted to our customers electronically thus reducing usage of paper. Sales invoices are also increasingly being transmitted electronically.



#### Water, Effluent & Waste

Megachem implemented LEAN methodology to reduce quantity of waste water generation.

By standardizing washing procedure for difference types of products based on its chemical properties, developing training programs for operator on washing process and implementing water recycling program, we manage to reduce waste water by about 40%.

We ensure that chemical wastes are treated responsibly by engaging licensed industrial waste treatment companies.



#### Products and Recycling of packaging materials

Megachem practices 'reduce, reuse and recycle' of packaging material whenever we can.

Packaging material such as wooden pallet or plastic pallet are reused in the factory. We also collaborate with customers to reuse packaging materials whenever possible.

In 2017, Megachem recovered a total of 3,000 kg paper and carton boxes, 2,900 kg metal and 982 kg plastic.



#### Environmental Impact of transporting goods

Most of our delivery trucks are in compliance with the EURO V standard which helps to reduce the emission of CO<sub>2</sub> and other gases.

In addition, we work with customers to optimize the delivery schedule, taking advantage of consolidation opportunities whenever possible in order to achieve fuel and CO<sub>2</sub> emissions reduction.



#### Deforestation

Among other factors, greenhouse gas emissions from deforestation is contributing to climate change. Working with suppliers and customers,

Megachem is making efforts to reduce deforestation from the chemical supply chain. For example, in the sourcing for paper materials, we will try to source for materials that are made from renewable fibres and certified by international certification organization which promotes sustainable forest management.



#### Compliance

In 2017, Megachem did not incur any significant fines for noncompliance with environmental laws and regulations.



#### EARTH DAY

Every year, Earth Day aims to encourage people around the world to be more environmental-friendly.

On this day, Megachem offices around the world turned off all lights for an hour to support the Global Earth Day initiative.

# SUSTAINABILITY REPORT

## TARGETS & PLANS

### TO REDUCE:

**10%** CHEMICAL WASTE

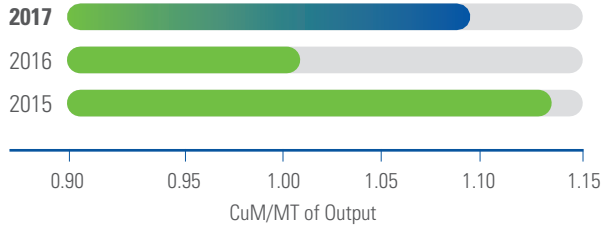
**5%** ENERGY CONSUMPTION (NON-PRODUCTION ACTIVITIES)

**≥5%** WASTE WATER GENERATION (FROM PRODUCTION)

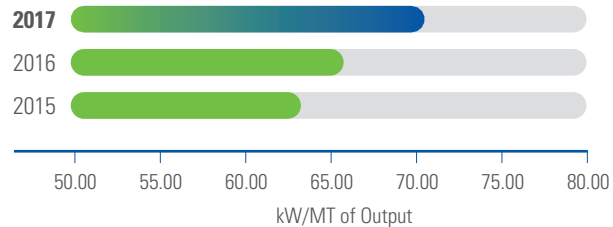
**0** NON COMPLIANCE TO COMPLY WITH ALL OPERATING REQUIREMENTS AND CONDITIONS REQUIRED BY LEGISLATION RELEVANT TO ENVIRONMENTAL MANAGEMENT

## PERFORMANCE HIGHLIGHTS

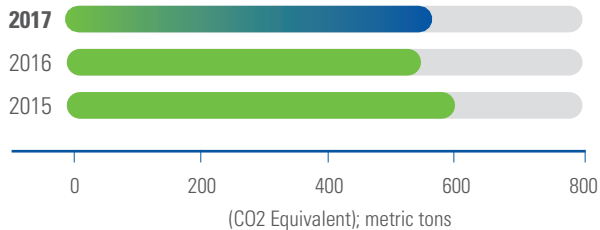
### WATER CONSUMPTION (SINGAPORE)



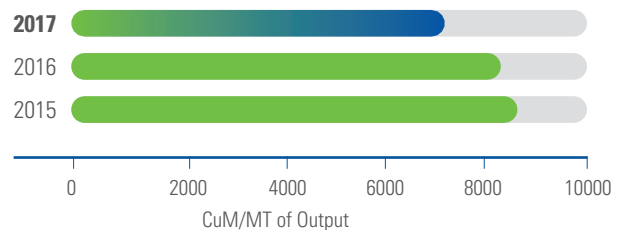
### ELECTRICITY CONSUMPTION (SINGAPORE)



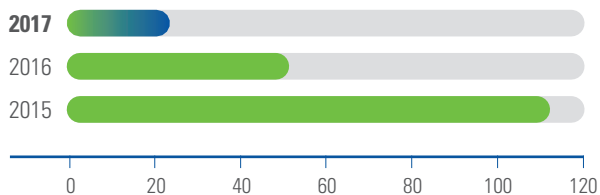
### GREENHOUSE GAS EMISSION (IN SINGAPORE)



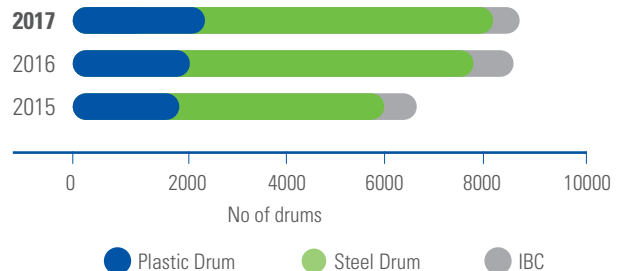
### WASTE WATER GENERATION (SINGAPORE)



### PAPER USAGE \$\$/EMPLOYEE (SINGAPORE)



### RECOVERED PACKAGING



## SUSTAINABILITY REPORT

## SOCIAL - PRODUCT RESPONSIBILITIES



## Health &amp; Safety

## Objective

We take pride in our commitment to maintain high level of health and safety standards. They are the foundations of trust that our people, customers and vendors place in us. We therefore aim to achieve uncompromised level of health and safety standards in our plants, products and processes.

## Approach

The framework for our Health, Safety and Environment (HSE) management is modeled after international standards. We have attained international certification such as the ISO 14001:2015 and OHSAS 18001:2007 certification and are a member of the Responsible Care Program.

We have also received several Responsible Care Awards for attaining excellence in meeting international HSE standards from the Singapore Chemical Industry Councils. Internal and external audits are being conducted to ensure that our HSE programs consistently meet international standards.

Safety Data Sheets detailing health, safety and environment measures are available for all products that we handle.

Our plants are built to meet stringent regulatory requirements in relation to H&S and our processes are designed with features to reduce H&S risk. Our goal is to operate the plant safely with no leaks or incidents that may cause serious injury to our employees, contractors or neighbors. We routinely prepare and practice our emergency response to potential incidents such as chemical spill or a fire. This involves working closely with the Singapore Civil Defence Force to jointly test our emergency response plans and procedures. The joint exercises continually improve our readiness to respond. If an incident does occur, we have procedures in place to mitigate the risk and reduce the impact on people and the environment.

Megachem's employees operate a large number of vehicles such as delivery trucks, high reach trucks and forklift trucks on our company's premises and on public roads every day. There are serious risks and



# S U S T A I N A B I L I T Y

## R E P O R T

hazards associated with it and can cause significant harm to the environment as well as humans if accidents occur. At Megachem, we are aware of the risks and hazards and we have programmes to ensure that the drivers are well-trained and the equipment are in good condition to carry out daily job requirements. Drivers for delivery trucks undergo special safety training and possess hazardous transport driving permit (HTDP). They are also trained in safe loading methods, securing of cargo and understand how to react during an emergency according to the transport emergency response plan (TERP). The vehicles are also equipped with GPS and tracking device with speed limit alert. Their driving skills are regularly assessed by the supervisor. The vehicles are also regularly inspected and maintained by certified third party service provider. The delivery trucks are also subjected to inspection by the regulatory body such as Singapore Civil Defence Force (SCDF) and Land Transport Authority (LTA).

Employees are required to wear suitable safety clothing and personal protection equipment (PPE) such as helmet, safety shoes, reflective clothing at work. Pathways are appropriately indicated in Megachem's premises. As a result of the

programmes in place at Megachem, we are not only able to reduce the number of incidents/accidents, but also able to increase the safety awareness of our employees.

The production and use of chemicals in workplaces present one of the most significant challenges in workplace protection programs. As part of our Company's efforts, we strive to ensure the safety and health of the employees in Megachem. Workplace safety and health is an important practice toward this goal. In order to enhance and promote safety awareness, a Safety Day program is organized for our employees, some of our customers and suppliers as well as our neighbours. For this event, SCDF officers provide us with better understanding of safety standards in handling flammable and hazardous chemicals. The other activities of this program include safety video sharing, safety quiz and safety games.

Sourcing the right 3rd party provider to store our products is of paramount importance to our business. We have developed a warehouse assessment checklist to ensure that the 3rd party provider adhere to our storage requirements and to acceptable safety, health, environment and security standards.





## SUSTAINABILITY REPORT

### PERFORMANCE HIGHLIGHTS

For 2017, there has been no cases of non-compliance with health and safety regulations.



#### Targets & Plans

To achieve zero reportable accident.

To comply with occupational health and safety requirements of all employees with no findings from authority.

#### Product Labelling

##### Objective

To protect humans and environment against hazardous chemicals as well as to facilitate international trade by ensuring that all chemicals moving into and out of a country are classified, packaged and labelled in accordance with a globally harmonised system.

##### Approach

Another way in which Megachem contributes to international chemical safety is through our support of the United Nations' initiative to implement a Globally Harmonized System (GHS) of Classification and Labeling of Chemicals. GHS is a system for chemical classification and hazard communication through harmonised provisions for standardized labels and safety data sheets.

#### Performance Highlights

The GHS system of chemical classification is currently being implemented.

There has been no cases of non-compliance with regulations concerning product labelling.

#### Customer Satisfaction

##### Objective

To ensure our products and services are delivered to the satisfaction of our customers.

##### Approach

Megachem measures customer satisfaction through annual survey and seeks continuous improvement so as to deliver total customer satisfaction.

#### Performance Highlights



#### Targets & Plans

To achieve customer satisfaction level of at least 85%.

#### Customer Privacy

##### Objective

To protect customers and suppliers intellectual property rights and privacy.

##### Approach

Megachem ensures that only relevant employees have access to customers and suppliers confidential information and that such information are properly stored and secured.

In order to protect intellectual property rights of our customers and suppliers, their IP rights are used only to the extent stipulated in non-disclosure agreements with them.

#### Performance Highlights

We have not received any substantiated complaints relating to breach of customer privacy or loss of customers data.

#### Sustainable Products

##### Objective

To include sustainable products in product portfolio.

##### Approach

Major chemical producers are increasingly focused on developing products which reduces environmental impact, thereby providing sustainable alternatives to conventional products. As a distributor of chemicals, our goal is to add more of such sustainable products into our product portfolio and introducing them to our customers, hence contributing to the industry's sustainability objectives.

#### Product Compliance

##### Objective

To comply with relevant regulations concerning the sale of our products.

##### Approach

In the European Union (EU), all imported or manufactured chemical substances above a quantity of one tonne per year are subject to registration under Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) regulations. Similar registration requirements and regulations exist for other markets. In Canada, the United States, Australia, Korea, China and Turkey, for example, notification is also mandatory for new chemicals on the market.

In Megachem, our regulatory compliance team together with our supply chain team ensures that information required from our suppliers to comply with the REACH regulations are accurate and complete and that they are readily available for submission to the regulatory authorities.

# S U S T A I N A B I L I T Y R E P O R T

## SOCIAL – LABOUR PRACTICES & WORK ENVIRONMENT

### Objective

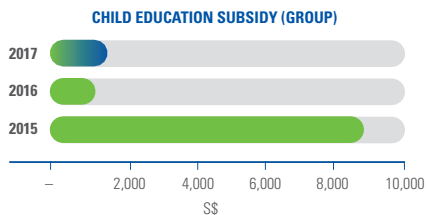
To sustain our human capital to achieve our long-term goals.

### Approach

Megachem is influenced by the effects of demographic changes worldwide. The rising life expectancy, shrinking and aging population represent special challenges for companies' human resources management. We at Megachem have an important role to play in mastering the demographic challenges of the future. From the way in which we address these challenges, we can shape the social environment which we operate in and at the same time secure competitive advantages. Sustaining our human capital therefore becomes critical for us to achieve our long-term goals.

### Employment: Employees Well-being/Work-Life Balance/Fair Wages/Talent Management

With a view to maintaining the employability of our workforce, increased focus is placed on preventive health care. Annually health screening examinations and sporting activities are examples of what we do to positively influence employees' health. We have been actively participating in Corporate National Steps Challenge organized by Health Promotion Board to encourage employees to walk towards a healthier future. We also provide comprehensive health insurances to our employees to help defray part of their medical costs.



As a Work Life Achiever Award recipient, Megachem commits to create and sustain a working environment supportive of work life balance for all



employees where they are respected partners of the business.

We purchase external wage data every two-year and strike to balance our salary structure externally and internally. Market data serves as an external benchmarking tools and with the objective to pay fairly and reasonable to our employees.

Competition for talent will become more intensified as well with the changing demographics. Megachem's human resource management adopts a holistic approach that not only provides tangible rewards but also intangibles such as work-life balance practices, education sponsorship, continuous training and upgrading as well as flexible work schedule. Our employees are also entitled to various type of leaves such as parental care, career break/sabbatical, prolonged sickness, dependent care, maternity, paternity and examination leave. These initiatives are also aimed at prolonging the employability of our employees.

### Subsidy for Children's Education & Support Grant

With the commitment towards enriching the well-being of our employees, we provide subsidy to our lower income employees to defray part of their children's education cost, ranging from nursery up to tertiary education.

We have also launched a new scheme called Support Grant for Special Needs Children. This scheme targeting to assist employees on their financial abilities to cope with the necessary medical treatment.

### Training and Education

Our Higher Learning Education program provides financial assistance to eligible employees who choose to further their professional education and training that will enhance their knowledge and skills. Education sponsorships are available for staff who wish to pursue higher education.

Megachem is a certified "People Developer" organisation in Singapore. "People Developer" is a certification awarded by Spring Singapore to companies which have achieved the niche Business Excellence standard for human resource development. This niche standard provides us with a total approach to attracting, managing and engaging employees for high performance and aims to bring the best out of our people. We have successfully renewed another 3 years of the accreditation in October 2016.

Megachem welcomes interns/attachment students to embark on an exciting learning journey with challenging assignments and projects. Upon graduation, these interns are encouraged to apply and join the Company as Management Trainees in their first step towards building a promising career.

### Diversity & Equal Opportunity

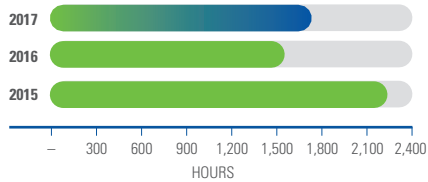
At Megachem, we value and respect each individual in the organisation and ensure that all of our employees feel they are a part of the organisation – cultivating a culture of mutual respect. Hence Megachem has a non-discriminatory culture that it does not discriminate on the basis of race, religion, gender, marital status or age.

## SUSTAINABILITY REPORT

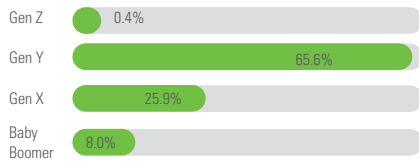
### Performance Highlights

Megachem has 224 employees in its organization as at 31 December 2017.

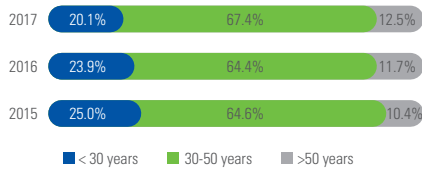
#### TRAINING HOURS (GROUP)



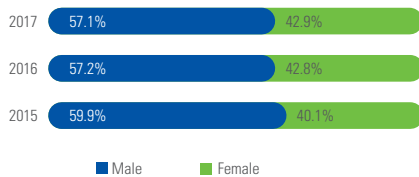
#### GENERATION (GROUP)



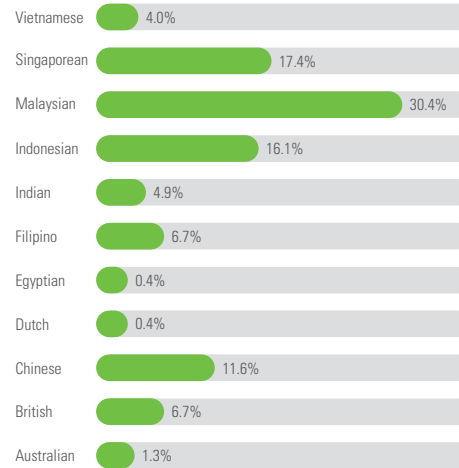
#### EMPLOYEE AGE DISTRIBUTION (GROUP)



#### GENDER DIVERSITY (GROUP)



#### NATIONALITY (GROUP)



### TARGETS & PLANS

TO ACHIEVE HIGHER SCORE FOR OUR NEXT RENEWAL OF PEOPLE DEVELOPER CERTIFICATION.

# SUSTAINABILITY REPORT

## SOCIAL – SOCIETY

### Objective

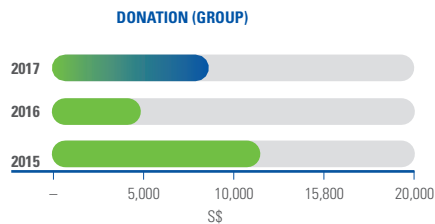
To play our part in nation building.

### Approach

At Megachem, we recognize that businesses have a part to play in nation-building especially in providing assistance to people who are less fortunate than others. As such, we work closely with charitable organizations in finding ways for us to contribute to society. These come not just in the form of monetary contribution but also in committing time and effort in participating in these organizations' activities. Annually, Megachem visits several charitable homes during which we make donations as well as provide basic necessities to them. We also participate annually in several fund-raising events and in youth development program.

Megachem participates actively in charity programmes as part of our social responsibility to the community.

### Performance Highlights



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# STATEMENT BY DIRECTORS

The directors of the Company are pleased to present the accompanying financial statements of the Company and of the Group for the reporting year ended 31 December 2017.

## 1. OPINION OF THE DIRECTORS

In the opinion of the directors,

- (a) the accompanying financial statements and the consolidated financial statements are drawn up so as to give a true and fair view of the financial position and performance of the Company and, of the financial position and performance of the Group for the reporting year covered by the financial statements or consolidated financial statements; and
- (b) at the date of the statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors approved and authorised these financial statements for issue.

## 2. DIRECTORS

The directors of the Company in office at the date of this statement are:

Chew Choon Tee  
Tan Bock Chia  
Lee Bon Leong  
Chan Kam Loon  
Tay Kin Bee  
Toshiyuki Yokogawa

## 3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the Company holding office at the end of the reporting year were not interested in shares in or debentures of the Company or other related body corporate as recorded in the register of directors' shareholdings kept by the Company under section 164 of the Companies Act, Chapter 50 ("the Act") except as follows:

<u>Name of directors</u>	<u>Direct Interest</u>		<u>Deemed Interest</u>	
	<u>At 1.1.17</u>	<u>At 31.12.17</u>	<u>At 1.1.17</u>	<u>At 31.12.17</u>
	<b>Number of shares of no par value</b>			
Chew Choon Tee	45,995,316	46,151,416	444,296	444,296
Tan Bock Chia	25,192,083	25,426,083	–	–
Lee Bon Leong	100,000	100,000	–	–

By virtue of section 7 of the Act, Mr Chew Choon Tee, who by virtue of his interest of not less than 20% of the issued capital of the Company, is deemed to have an interest in the Company and in all the related corporations of the Company.

The directors' interests as at 21 January 2018 were the same as those at the end of the year.

# STATEMENT BY DIRECTORS

## 4. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the reporting year nor at any time during the reporting year did there subsist arrangements to which the Company is a party, being arrangements whose objects are, or one of whose objects is, to enable directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## 5. OPTIONS

During the reporting year, no option to take up unissued shares of the Company or other body corporate in the Group was granted.

During the reporting year, there were no shares issued by virtue of the exercise of an option to take up unissued shares.

At the end of the reporting year, there were no unissued shares under option.

## 6. REPORT OF AUDIT COMMITTEE

The members of the Audit Committee at the date of this report are as follows:

Mr Chan Kam Loon	(Chairman of Audit Committee, Lead Independent Non- executive Director)
Mr Lee Bon Leong	(Independent Non-executive Director)
Dr Tay Kin Bee	(Independent Non-executive Director)

The Audit Committee carried out its function in accordance with section 201B(5) of the Companies Act, Chapter 50. The Audit Committee's main functions are to:

- review the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and of the Group and any announcements relating to the Group's financial performance;
- review and report to the Board annually the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls;
- review effectiveness of the Company's internal audit function;
- review the scope and results of the external audit and the independence and objectivity of the external auditors;
- make recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approve the remuneration and the terms of engagement of the external auditors;
- review the Group's results announcements, consolidated financial statements and other documents accompanying the same before they are recommended to the Board for approval; and
- review and, where appropriate, approve interested person transactions (as defined in Chapter 9 of the Singapore Exchange Securities Trading Limited's Listing Manual).

Other functions performed by the Audit Committee are described in the report on corporate governance included in the annual report. It also includes an explanation of how the independent auditor's objectivity and independence is safeguarded where the independent auditor provides non-audit services.

The Audit Committee has recommended to the Board of Directors that the independent auditor, RSM Chio Lim LLP, be nominated for re-appointment as independent auditor at the next annual general meeting of the Company.

# STATEMENT BY DIRECTORS

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## 7. INDEPENDENT AUDITOR

RSM Chio Lim LLP has expressed willingness to accept re-appointment.

## 8. DIRECTORS' OPINION ON THE ADEQUACY OF INTERNAL CONTROLS

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, and reviews performed by management, other committees of the Board and the Board, the Audit Committee and the Board are of the opinion that Group's system of internal controls, addressing financial, operational, compliance risks, are adequate as at the end of the reporting year 31 December 2017.

## 9. SUBSEQUENT DEVELOPMENTS

There are no significant developments subsequent to the release of the Group's and the Company's preliminary financial statements, as announced on 22 February 2018, which would materially affect the Group's and the Company's operating and financial performance as of the date of this report.

On behalf of the directors

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Chew Choon Tee  
Executive Chairman and Managing Director

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Tan Bock Chia  
Executive Director

9 March 2018

# INDEPENDENT AUDITOR'S REPORT

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## Independent Auditor's Report to the Members of MEGACHEM LIMITED

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the accompanying financial statements of Megachem Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Group for the reporting year then ended, and notes to the financial statements, including accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the reporting year ended on that date.

#### Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters ("KAMs") are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current reporting year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### 1. Impairment of trade receivables

Refer to Note 2 for the relevant accounting policy and Notes 16 and 25F for the breakdown of trade receivables and credit risk of the Group respectively. Also refer to the audit committee section in the corporate governance report of the annual report and responses to the reported KAMs.

##### Key audit matter

The carrying amount of trade receivables amounted to \$27,158,880, which accounted for approximately 34% of the Group's total assets as at the reporting year end.

The gross amount of trade receivables past due over 4 months amounted to \$4.5 million. Provision stood at \$2.5 million, leaving a net amount of \$2 million that was not provided for as management is of the view that these amounts are recoverable, based on their knowledge of the customers' payment history and credit worthiness.

Determining the amount of allowance requires management's judgement on overdue debts and the amount of collection default based on past collection trends.

# INDEPENDENT AUDITOR'S REPORT

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## 1. **Impairment of trade receivables (cont'd)**

### How we addressed the matter in our audit

We have evaluated management's judgement on the recoverability of these amounts via our review of the customers' credit worthiness and payment history. We have also reviewed management's process over the recoverability of outstanding trade receivables, which included the review of payments made by the customers subsequent to the reporting year end and the review of correspondence with customers to assess the potential recoverability of significant balances not provided for.

We found management's approach to be balanced and the estimates to be reasonable.

We have also assessed the adequacy of the disclosures made in the financial statements.

## 2. **Impairment of inventories**

Refer to Note 2 for the relevant accounting policy and Note 15 for the breakdown of inventories at the reporting year end. Also refer to the audit committee section in the corporate governance report of the annual report and responses to the reported KAMs.

### Key audit matter

The carrying amount of inventories amounted to \$23,914,744, which accounted for approximately 30% of the Group's total assets as at the reporting year end.

The Group's inventory provision policy takes into consideration the inventory ageing profiles, as well as the inventories' sales patterns for the year. Management is of the view that these amounts are realisable, based on their knowledge of the Group's operations, the industry and their technical assessment of the inventories.

Determination of the method to use, period to consider, and percentages to apply to aged inventory requires significant management's judgement.

### How we addressed the matter in our audit

We have evaluated the Group's policy for inventory obsolescence and reviewed management's judgement on their technical assessment of the inventories via our understanding of the business environment and our review of the inventories' sales patterns.

We have also reviewed the Group's inventory ageing as at the reporting year end, as well as the Group's computation for inventory obsolescence and found them to be reasonable. We have compared the carrying values of the inventories to the recent sales invoices and price lists.

We have also assessed the adequacy of the disclosures made in the financial statements.

# INDEPENDENT AUDITOR'S REPORT

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### 3. Impairment of subsidiaries

Refer to Note 2 for the relevant accounting policy and Note 12 for the breakdown of cost of investments in subsidiaries at the reporting year end. Also refer to the audit committee section in the corporate governance report of the annual report and responses to the reported KAMs.

#### Key audit matter

The carrying amount of subsidiaries recorded by the Company amounted to \$5,284,379, which accounted for approximately 13% of the Company's total assets as at the reporting year end.

Management determines at the end of each reporting year, whether there is any objective evidence indicating that the Company's investments in subsidiaries are impaired. Where there are indicators of impairment, management uses the value-in-use method to determine the recoverable amount of the subsidiary. The value-in-use calculation requires management to identify the cash-generating unit ("CGU") that the subsidiary is in, and estimate the future cash flows expected to arise from these CGU and a suitable discount rate in order to calculate present value. In estimating the future cash flows of the CGU, management forecasted the revenue, growth rates, margins based on presently available information.

Key assumptions and management's estimates used in the value-in-use model for the determination of the recoverable amount of the subsidiaries requires significant judgement.

#### How we addressed the matter in our audit

We have reviewed management's estimates used in the value-in-use model through our knowledge of the CGU's operations, their past performance, management's growth strategies and cost initiatives.

We have also assessed the reasonableness of the discount rates used in the impairment assessment by comparing against regional indices and industry benchmarks.

Based on our procedures, management's key assumptions are found to be within a reasonable range of our expectations.

We have also assessed the adequacy of the disclosures made in the financial statements.

### OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# INDEPENDENT AUDITOR'S REPORT

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## OTHER INFORMATION (CONT'D)

### Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

# I N D E P E N D E N T A U D I T O R ' S R E P O R T

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## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)**

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Woo E-Sah.

RSM Chio Lim LLP  
Public Accountants and  
Chartered Accountants  
Singapore

9 March 2018

Engagement partner – effective from year ended 31 December 2017



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year Ended 31 December 2017

	Notes	Group	
		2017 \$	2016 \$
<b>Revenue</b>	3	<b>108,102,074</b>	99,762,948
Cost of sales		<b>(81,493,638)</b>	(74,494,752)
<b>Gross profit</b>		<b>26,608,436</b>	25,268,196
Other income	3	<b>2,546,480</b>	732,087
Distribution costs		<b>(15,761,993)</b>	(14,601,434)
Administrative expenses		<b>(5,053,764)</b>	(5,004,889)
Other operating expenses		<b>(3,416,780)</b>	(2,749,118)
Finance costs	5	<b>(532,689)</b>	(559,859)
Share of profit of associated companies	13	<b>818,338</b>	559,402
<b>Profit before income tax</b>		<b>5,208,028</b>	3,644,385
Income tax expense	7	<b>(1,012,840)</b>	(1,414,375)
<b>Net profit</b>		<b>4,195,188</b>	2,230,010
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange difference on translating foreign operations, net of tax		<b>(116,405)</b>	(710,574)
<b>Total comprehensive income</b>		<b>4,078,783</b>	1,519,436
Net profit attributable to equity holders of the Company		<b>4,242,508</b>	2,040,876
Net (loss)/profit attributable to non-controlling interests		<b>(47,320)</b>	189,134
<b>Net profit</b>		<b>4,195,188</b>	2,230,010
Total comprehensive income attributable to equity holders of the Company		<b>4,226,281</b>	1,390,519
Total comprehensive (loss)/income attributable to non-controlling interests		<b>(147,498)</b>	128,917
<b>Total comprehensive income</b>		<b>4,078,783</b>	1,519,436
<b>Earnings per share for profit attributable to equity holders of the Company</b>			
<b>(cents per share)</b>			
Basic and diluted	9	<b>3.18</b>	1.53

The accompanying notes form an integral part of these financial statements.

# STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017

	Notes	Group		Company	
		2017 \$	2016 \$	2017 \$	2016 \$
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10	10,856,528	11,425,745	1,596,963	1,668,712
Investment property	11	82,054	83,387	–	–
Investments in subsidiaries	12	–	–	5,284,379	5,084,379
Investments in associated companies	13	5,521,196	3,126,186	2,798,756	2,798,756
Transferable club memberships	14	26,952	26,476	4,001	4,001
Deferred tax assets	7	268,282	–	–	–
<b>Total non-current assets</b>		<b>16,755,012</b>	<b>14,661,794</b>	<b>9,684,099</b>	<b>9,555,848</b>
<b>Current assets</b>					
Inventories	15	23,914,744	20,368,700	10,763,479	10,046,724
Trade and other receivables	16	27,661,192	24,233,154	18,329,223	16,147,339
Financial assets at fair value through profit or loss	17	581,533	216,919	580,000	150,000
Other current assets	18	1,647,396	2,168,578	341,079	368,184
Cash and cash balances	19	9,344,937	11,560,037	1,795,013	3,291,107
<b>Total current assets</b>		<b>63,149,802</b>	<b>58,547,388</b>	<b>31,808,794</b>	<b>30,003,354</b>
<b>Total assets</b>		<b>79,904,814</b>	<b>73,209,182</b>	<b>41,492,893</b>	<b>39,559,202</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves attributable to equity holders of the Company</b>					
Share capital	20	15,892,028	15,892,028	15,892,028	15,892,028
Other reserves	21	(4,548,918)	(4,532,691)	–	–
Retained earnings		33,272,085	30,629,177	8,945,335	8,809,402
		44,615,195	41,988,514	24,837,363	24,701,430
Non-controlling interests		2,578,806	2,808,655	–	–
<b>Total equity</b>		<b>47,194,001</b>	<b>44,797,169</b>	<b>24,837,363</b>	<b>24,701,430</b>
<b>Non-current liabilities</b>					
Borrowings	22	2,120,264	2,907,008	–	–
<b>Total non-current liabilities</b>		<b>2,120,264</b>	<b>2,907,008</b>	<b>–</b>	<b>–</b>
<b>Current liabilities</b>					
Current income tax liabilities		431,885	62,923	178,114	–
Trade and other payables	23	15,580,433	13,006,569	6,832,284	6,863,060
Borrowings	22	14,561,469	12,418,443	9,645,132	7,994,712
Financial liabilities at fair value through profit or loss	24	16,762	17,070	–	–
<b>Total current liabilities</b>		<b>30,590,549</b>	<b>25,505,005</b>	<b>16,655,530</b>	<b>14,857,772</b>
<b>Total liabilities</b>		<b>32,710,813</b>	<b>28,412,013</b>	<b>16,655,530</b>	<b>14,857,772</b>
<b>Total equity and liabilities</b>		<b>79,904,814</b>	<b>73,209,182</b>	<b>41,492,893</b>	<b>39,559,202</b>

The accompanying notes form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2017

Notes	Total equity \$	Parent subtotal \$	Share capital \$	Other reserves \$	Retained earnings \$	Non- controlling interests \$
<b>Group:</b>						
<b>Current year:</b>						
	44,797,169	41,988,514	15,892,028	(4,532,691)	30,629,177	2,808,655
	4,078,783	4,226,281	–	(16,227)	4,242,508	(147,498)
8	(933,100)	(933,100)	–	–	(933,100)	–
8	(666,500)	(666,500)	–	–	(666,500)	–
	(82,351)	–	–	–	–	(82,351)
<b>Closing balance at 31 December 2017</b>	<u>47,194,001</u>	<u>44,615,195</u>	<u>15,892,028</u>	<u>(4,548,918)</u>	<u>33,272,085</u>	<u>2,578,806</u>
<b>Previous year:</b>						
	45,083,816	42,195,764	15,892,028	(3,882,334)	30,186,070	2,888,052
	1,519,436	1,390,519	–	(650,357)	2,040,876	128,917
8	(933,100)	(933,100)	–	–	(933,100)	–
8	(666,500)	(666,500)	–	–	(666,500)	–
	1,831	1,831	–	–	1,831	–
	(208,314)	–	–	–	–	(208,314)
<b>Closing balance at 31 December 2016</b>	<u>44,797,169</u>	<u>41,988,514</u>	<u>15,892,028</u>	<u>(4,532,691)</u>	<u>30,629,177</u>	<u>2,808,655</u>

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2017

	Notes	2017 \$	2016 \$
<b>Cash flows from operating activities</b>			
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 interest 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		(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)/generated from operations		(495,239)	4,818,707
Income tax paid		(748,757)	(1,406,318)
Interest received		100,228	80,878
<b>Net cash (used in)/from operating activities</b>		<b>(1,143,768)</b>	<b>3,493,267</b>
<b>Cash flows from investing activities</b>			
Dividends received from associated company and listed equity securities		358,044	5,426,676
Purchase of property, plant and equipment		(564,836)	(511,928)
Proceeds from sale of property, plant and equipment		33,885	40,921
Subscription for shares in associated company		–	(2,698,807)
<b>Net cash (used in)/from investing activities</b>		<b>(172,907)</b>	<b>2,256,862</b>
<b>Cash flows from financing activities</b>			
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 bill payables		2,476,027	62,786
Repayments of short term bank loans		(301,213)	(2,136,507)
Refunds of prior years unclaimed dividends		–	1,831
Interest paid		(523,937)	(578,100)
<b>Net cash used in financing activities</b>		<b>(801,664)</b>	<b>(5,181,941)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,118,339)</b>	<b>568,188</b>
Cash and cash equivalents, statement of cash flows, beginning balance		11,527,426	11,059,729
Effects of exchange rate changes on cash and cash equivalents		(64,150)	(100,491)
<b>Cash and cash equivalents, statement of cash flows, ending balance</b>	19A	<b>9,344,937</b>	<b>11,527,426</b>

The accompanying notes form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 1. GENERAL

The Company is incorporated in Singapore with limited liability. The financial statements are presented in Singapore dollars and they cover the Company (referred to as “parent”) and its subsidiaries.

The board of directors approved and authorised these financial statements for issue on the date of the statement by directors.

The principal activities of the Company consist of trading in chemicals and chemical-related products and investment holding. It is listed on Catalist which is a share market on Singapore Exchange Securities Trading Limited.

The principal activities of the subsidiaries are described in Note 12 below.

The registered office is: 11 Tuas Link 1, Singapore 638588. The Company is situated in Singapore.

### Accounting convention

The financial statements of the company as the reporting entity have been prepared in accordance with the Financial Reporting Standards in Singapore (“FRSs”) and the related Interpretations to FRS (“INT FRS”) as issued by the Singapore Accounting Standards Council and the Companies Act, Chapter 50. The financial statements are prepared on a going concern basis under the historical cost convention except where a FRSs require an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements. The accounting policies in FRSs may not be applied when the effect of applying them is not material. The disclosures required by FRSs need not be provided if the information resulting from that disclosure is not material. Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss, as required or permitted by FRSs.

### Basis of preparation of the financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Apart from those involving estimations, management has made judgements in the process of applying the entity’s accounting policies. The areas requiring management’s most difficult, subjective or complex judgements, or areas where assumptions and estimates are significant to the financial statements, are disclosed at the end of this footnote, where applicable.

### Basis of presentation

The consolidated financial statements include the financial statements made up to the end of the reporting year of the Company and all of its subsidiaries. The consolidated financial statements are the financial statements of the Group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity and are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intragroup balances and transactions, including income, expenses and cash flows are eliminated on consolidation. Subsidiaries are consolidated from the date the reporting entity obtains control of the investee and cease when the reporting entity loses control of the investee. Control exists when the Group has the power to govern the financial and operating policies so as to gain benefits from its activities.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 1. GENERAL (CONT'D)

### **Basis of presentation (cont'd)**

Changes in the Group's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity as transactions with owners in their capacity as owners. The carrying amounts of the Group's and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. When the Group loses control of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at fair value at the date when control is lost and is subsequently accounted as available-for-sale financial assets in accordance with FRS 39.

The Company's separate financial statements have been prepared on the same basis, and as permitted by the Companies Act, Chapter 50, the Company's separate statement of profit or loss and other comprehensive income is not presented.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

### 2A. Significant accounting policies

#### ***Revenue recognition***

The revenue amount is the fair value of the consideration received or receivable from the gross inflow of economic benefits during the reporting year arising from the course of the ordinary activities of the entity and it is shown net of any related sales taxes, estimated returns and rebates. Revenue from the sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer, there is neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from rendering of services that are of short duration is recognised when the services are completed. Revenue from rendering of long-term services is recognised by reference to the stage of completion of the transaction at the end of the reporting year determined by services performed to date as a percentage of total services and the amount of revenue, stage of completion, and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Rental revenue is recognised on a time-proportion basis that takes into account the effective yield on the asset on a straight-line basis over the lease term.

Interest income is recognised using the effective interest method.

Dividend from equity instruments is recognised as income when the entity's right to receive payment is established.

#### ***Government grants***

A government grant is recognised at fair value when there is reasonable assurance that the conditions attaching to it will be complied with and that the grant will be received. Grants in recognition of specific expenses are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis. A grant related to depreciable assets is allocated to income over the period in which such assets are used in the project subsidised by the grant. A government grant related to assets, including non-monetary grants at fair value, is presented in the statement of financial position by setting up the grants as deferred income.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2A. Significant accounting policies (cont'd)

#### *Employee benefits*

Contributions to a defined contribution retirement benefit plan are recorded as an expense as they fall due. The entity's legal or constructive obligation is limited to the amount that it is obligated to contribute for the Singapore employees to an independently administered fund (such as the Central Provident Fund in Singapore, a government managed defined contribution retirement benefit plan). Certain subsidiaries overseas have defined contribution retirement benefit plans in which employees are entitled to join upon fulfilling certain conditions. The assets of the fund may or may not be held separately from those of the entity in an independently administered fund. The entity contributes an amount equal to a fixed percentage of the salary of each participating employee. For employee leave entitlement the expected cost of short-term employee benefits in the form of compensated absences is recognised in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur. A liability for bonuses is recognised where the entity is contractually obliged or where there is constructive obligation based on past practice.

#### *Borrowing costs*

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds and are recognised as an expense in the period in which they are incurred. Interest expense is calculated using the effective interest rate method.

#### *Foreign currency transactions*

The functional currency is the Singapore dollar as it reflects the primary economic environment in which the entity operates. Transactions in foreign currencies are recorded in the functional currency at the rates ruling at the dates of the transactions. At each end of the reporting year, recorded monetary balances and balances measured at fair value that are denominated in non-functional currencies are reported at the rates ruling at the end of the reporting year and fair value measurement dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in profit or loss except when recognised in other comprehensive income and if applicable deferred in equity such as for qualifying cash flow hedges. The presentation is in the functional currency.

#### *Translation of financial statements of other entities*

Each entity in the Group determines the appropriate functional currency as it reflects the primary economic environment in which the entity operates. In translating the financial statements of such an entity for incorporation in the consolidated financial statements, the assets and liabilities denominated in currencies other than the presentation currency of the company are translated at year end rates of exchange and the income and expense items are translated at average rates of exchange for the year. The resulting translation adjustments (if any) are recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of that relevant entity.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2A. Significant accounting policies (cont'd)

#### *Income tax*

The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statements or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted or substantially enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the reporting year in respect of current tax and deferred tax. Current and deferred income taxes are recognised as income or as an expense in profit or loss unless the tax relates to items that are recognised in the same or a different period outside profit or loss. For such items recognised outside profit or loss the current tax and deferred tax are recognised (a) in other comprehensive income if the tax is related to an item recognised in other comprehensive income and (b) directly in equity if the tax is related to an item recognised directly in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same income tax authority. The carrying amount of deferred tax assets is reviewed at each end of the reporting year and is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised. A deferred tax amount is recognised for all temporary differences, unless the deferred tax amount arises from the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax liability or asset is recognised for all taxable temporary differences associated with investments in subsidiaries and associates except where the reporting entity is able to control the timing of the reversal of the taxable temporary difference and it is probable that the taxable temporary difference will not reverse in the foreseeable future or for deductible temporary differences, they will not reverse in the foreseeable future and they cannot be utilised against taxable profits.

#### *Property, plant and equipment*

Freehold land is not depreciated.

Depreciation on other items of property, plant and equipment is provided on a straight-line basis to allocate the gross carrying amounts less their residual values over their estimated useful lives of each part of an item of these assets. The useful lives are as follows:

Buildings on freehold land	–	50 years
Buildings on leasehold land	–	Over the period of lease of 20 to 30 years
Machinery and equipment	–	4 to 5 years
Motor vehicles	–	3 to 5 years
Computer equipment, furniture and fixtures	–	3 to 5 years

An asset is depreciated when it is available for use until it is derecognised even if during that period the item is idle. Fully depreciated assets still in use are retained in the financial statements.

Property, plant and equipment are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. The gain or loss arising from the derecognition of an item of property, plant and equipment is measured as the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognised in profit or loss. The residual value and the useful life of an asset is reviewed at least at each end of the reporting year and, if expectations differ significantly from previous estimates, the changes are accounted for as a change in an accounting estimate, and the depreciation charge for the current and future periods are adjusted.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2A. Significant accounting policies (cont'd)

#### *Property, plant and equipment (cont'd)*

Cost also includes acquisition cost, borrowing cost capitalised and any cost directly attributable to bringing the asset or component to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent costs are recognised as an asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss when they are incurred.

#### *Investment property*

Investment property is property owned or held under a finance lease to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. It includes an investment property in the course of construction. After initial recognition at cost including transaction costs, the cost model is used to measure the investment property using the treatment for property, plant and equipment, that is, at cost less any accumulated depreciation and any accumulated impairment losses.

The estimated useful lives are as follows:

Buildings on freehold land – 50 years

An investment property that meets the criteria to be classified as held for sale is carried at the lower of carrying amount and fair value less costs to sell. For disclosure purposes, the fair values are determined periodically on a systematic basis once in five years by external independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of property being valued.

#### *Leases*

Leases are classified as finance leases if substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases. At the commencement of the lease term, a finance lease is recognised as an asset and as a liability in the statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each measured at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine, the lessee's incremental borrowing rate is used. Any initial direct costs of the lessee are added to the amount recognised as an asset. The excess of the lease payments over the recorded lease liability are treated as finance charges which are allocated to each reporting year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the reporting years in which they are incurred. The assets are depreciated as owned depreciable assets. Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. For operating leases, lease payments are recognised as an expense in profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2A. Significant accounting policies (cont'd)

#### ***Subsidiaries***

A subsidiary is an entity including unincorporated and special purpose entity that is controlled by the reporting entity and the reporting entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of substantive potential voting rights that the reporting entity has the practical ability to exercise (that is, substantive rights) are considered when assessing whether the reporting entity controls another entity.

In the reporting entity's separate financial statements, an investment in a subsidiary is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for a subsidiary is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying value and the net book value of the investment in a subsidiary are not necessarily indicative of the amount that would be realised in a current market exchange.

#### ***Associates***

An associate is an entity including an unincorporated entity in which the reporting entity has a significant influence and that is neither a subsidiary nor a joint arrangement of the reporting entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

In the equity accounted financial statements (economic interest financial statements), the accounting for investments in an associate is on the equity method.

An investment in an associate includes goodwill on acquisition, which is accounted for in accordance with FRS 103 Business Combinations. However the entire carrying amount of the investment is tested under FRS 36 for impairment, by comparing its recoverable amount (higher of value in use and fair value) with its carrying amount, whenever application of the requirements in FRS 39 indicates that the investment may be impaired. Under the equity method the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The carrying value and the net book value of an investment in the associate are not necessarily indicative of the amounts that would be realised in a current market exchange. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income. Losses of an associate in excess of the reporting entity's interest in the relevant associate are not recognised except to the extent that the reporting entity has an obligation. Profits and losses resulting from transactions between the reporting entity and an associate are recognised in the financial statements only to the extent of unrelated reporting entity's interests in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are changed where necessary to ensure consistency with the policies adopted by the reporting entity. The reporting entity discontinues the use of the equity method from the date that when its investment ceases to be an associate and accounts for the investment in accordance with FRS 39 from that date. Any gain or loss is recognised in profit or loss. Any investment retained in the former associate is measured at fair value at the date that it ceases to be an associate.

In the Company's separate financial statements, an investment in an associate is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for an associate is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying value and the net book value of an investment in the associate are not necessarily indicative of the amounts that would be realised in a current market exchange.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2A. Significant accounting policies (cont'd)

#### ***Business combinations***

Business combinations are accounted for by applying the acquisition method. There were no acquisitions during the reporting year. Goodwill and fair value adjustments resulting from the application of purchase accounting at the date of acquisition are treated as assets and liabilities of the foreign entity and are recorded at the exchange rates prevailing at the acquisition date and are subsequently translated at the period end exchange rate.

#### ***Non-controlling interests***

The non-controlling interest is equity in a subsidiary not attributable, directly or indirectly, to the reporting entity as the parent. The non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. For each business combination, any non-controlling interest in the acquiree (subsidiary) is initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Where the non-controlling interest is measured at fair value, the valuation techniques and key model inputs used are disclosed in the relevant note. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

#### ***Inventories***

Inventories are measured at the lower of cost (first in first out method) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. A write down on cost is made for where the cost is not recoverable or if the selling prices have declined. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

#### ***Impairment of non-financial assets***

Irrespective of whether there is any indication of impairment, an annual impairment test is performed at about the same time every year on an intangible asset with an indefinite useful life or an intangible asset not yet available for use. The carrying amount of other non-financial assets is reviewed at each end of the reporting year for indications of impairment and where an asset is impaired, it is written down through profit or loss to its estimated recoverable amount. The impairment loss is the excess of the carrying amount over the recoverable amount and is recognised in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. When the fair value less costs of disposal method is used, any available recent market transactions are taken into consideration. When the value in use method is adopted, in assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At each end of the reporting year non-financial assets other than goodwill with impairment loss recognised in prior periods are assessed for possible reversal of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been measured, net of depreciation or amortisation, if no impairment loss had been recognised.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2A. Significant accounting policies (cont'd)

#### *Financial assets*

Initial recognition, measurement and derecognition:

A financial asset is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. The initial recognition of financial assets is at fair value normally represented by the transaction price. The transaction price for financial asset not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs incurred on the acquisition or issue of financial assets classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date.

Irrespective of the legal form of the transactions performed, financial assets are derecognised when they pass the "substance over form" based on the derecognition test prescribed by FRS 39 relating to the transfer of risks and rewards of ownership and the transfer of control. Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Subsequent measurement:

Subsequent measurement based on the classification of the financial assets in one of the following categories under FRS 39 is as follows:

1. Financial assets at fair value through profit or loss: Assets are classified in this category when they are incurred principally for the purpose of selling or repurchasing in the near term (trading assets) or are derivatives (except for a derivative that is a designated and effective hedging instrument) or have been classified in this category because the conditions are met to use the "fair value option" and it is used. All changes in fair value relating to assets at fair value through profit or loss are recognised directly in profit or loss.
2. Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets that are for sale immediately or in the near term are not classified in this category. These assets are carried at amortised costs using the effective interest method (except that short-duration receivables with no stated interest rate are normally measured at original invoice amount unless the effect of imputing interest would be significant) minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. Impairment charges are provided only when there is objective evidence that an impairment loss has been incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The methodology ensures that an impairment loss is not recognised on the initial recognition of an asset. Losses expected as a result of future events, no matter how likely, are not recognised. For impairment, the carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. Typically the trade and other receivables are classified in this category.
3. Held-to-maturity financial assets: As at year end date there were no financial asset classified in this category.
4. Available-for-sale financial assets: As at year end date there were no financial asset classified in this category.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2A. Significant accounting policies (cont'd)

#### *Cash and cash equivalents*

Cash and cash equivalents include bank and cash balances, on demand deposits and any highly liquid debt instruments purchased with an original maturity of three months or less. For the statement of cash flows the item includes cash and cash equivalents less cash subject to restriction and bank overdrafts payable on demand that form an integral part of cash management.

#### *Hedging*

The Group is exposed to currency and interest rate risks. The policy is to reduce currency and interest rate exposures through hedging instruments. These instruments are not used for trading or speculative purposes. The gain or loss from remeasuring these hedging instruments at fair value are recognised in profit or loss. The hedging instruments used are described below in the notes to the financial statements.

#### *Financial liabilities*

Initial recognition, measurement and derecognition:

A financial liability is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument and it is derecognised when the obligation specified in the contract is discharged or cancelled or expires. The initial recognition of financial liability is at fair value normally represented by the transaction price. The transaction price for financial liability not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Transaction costs incurred on the acquisition or issue of financial liability classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date.

Subsequent measurement:

Subsequent measurement based on the classification of the financial liabilities in one of the following two categories under FRS 39 is as follows:

1. Liabilities at fair value through profit or loss: Liabilities are classified in this category when they are incurred principally for the purpose of selling or repurchasing in the near term (trading liabilities) or are derivatives (except for a derivative that is a designated and effective hedging instrument) or have been classified in this category because the conditions are met to use the "fair value option" and it is used. All changes in fair value relating to liabilities at fair value through profit or loss are charged to profit or loss as incurred.
2. Liabilities at amortised cost: These liabilities are carried at amortised cost using the effective interest method.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2A. Significant accounting policies (cont'd)

#### *Fair value measurement*

When measuring fair value, management uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. It is a market-based measurement, not an entity-specific measurement. The entity's intention to hold an asset or to settle or otherwise fulfil a liability is not taken into account as relevant when measuring fair value. In making the fair value measurement, management determines the following: (a) the particular asset or liability being measured (these are identified and disclosed in the relevant notes below); (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis; (c) the market in which an orderly transaction would take place for the asset or liability; and (d) the appropriate valuation techniques to use when measuring fair value. The valuation techniques used maximise the use of relevant observable inputs and minimise unobservable inputs. These inputs are consistent with the inputs a market participant may use when pricing the asset or liability.

The fair value measurements categorise the inputs used to measure fair value by using a fair value hierarchy of three levels. These are recurring fair value measurements unless stated otherwise in the relevant notes to the financial statements. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The level is measured on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting year. If a financial instrument measured at fair value has a bid price and an ask price, the price within the bid-ask spread or mid-market pricing that is most representative of fair value in the circumstances is used to measure fair value regardless of where the input is categorised within the fair value hierarchy. If there is no market, or the markets available are not active, the fair value is established by using an acceptable valuation technique.

The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value. The fair values of non-current financial instruments may not be disclosed separately unless there are significant differences at the end of the reporting year and in the event the fair values are disclosed in the relevant notes to the financial statements.

### 2B. Other explanatory information

#### *Provisions*

A liability or provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision is made using best estimates of the amount required in settlement and where the effect of the time value of money is material, the amount recognised is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Changes in estimates are reflected in profit or loss in the reporting year they occur.

#### *Segment reporting*

The Group discloses financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2C. Critical judgements, assumptions and estimation uncertainties

The critical judgements made in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements and the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities currently or within the next financial year are discussed below. These estimates and assumptions are periodically monitored to ensure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates.

Net realisable value of inventories:

A review is made periodically on inventory for excess inventory, obsolescence and declines in net realisable value below cost and an allowance is recorded against the inventory balance for any such declines. These reviews require management to consider the future demand for the products. In any case the realisable value represents the best estimate of the recoverable amount and is based on the most reliable evidence available at the end of the reporting year and inherently involves estimates regarding the future expected realisable value. The usual considerations for determining the amount of allowance or write-down include ageing analysis, technical assessment and subsequent events. In general, such an evaluation process requires significant judgement and materially affects the carrying amount of inventories at the end of the reporting year. Possible changes in these estimates could result in revisions to the stated value of the inventories. The carrying amount of inventories at the end of the reporting year is disclosed in the note on inventories.

Allowance for doubtful trade accounts:

An allowance is made for doubtful trade accounts for estimated losses resulting from the subsequent inability of the customers to make required payments. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods. To the extent that it is feasible impairment and uncollectibility is determined individually for each item. In cases where that process is not feasible, a collective evaluation of impairment is performed. At the end of the reporting year, the trade receivables carrying amount approximates the fair value and the carrying amounts might change materially within the next reporting year but these changes may not arise from assumptions or other sources of estimation uncertainty at the end of the reporting year. The carrying amount is disclosed in the note on trade and other receivables.

Measurement of impairment of subsidiary or associate:

Where an investee is in net equity deficit and or has suffered losses a test is made whether the investment in the investee has suffered any impairment. This measurement requires significant judgement. An estimate is made of the future profitability of the investee, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the asset. The carrying amount of the specific asset at the end of the reporting year affected by the assumption is \$1,848,826.

Income tax amounts:

The entity recognises tax liabilities and assets tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual amount arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax amounts in the period when such determination is made.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

### 2C. Critical judgements, assumptions and estimation uncertainties (cont'd)

Income tax amounts: (cont'd)

In addition management judgement is required in determining the amount of current and deferred tax recognised and the extent to which amounts should or can be recognised. A deferred tax asset is recognised for unused tax losses if it is probable that the entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments. This involves the management making assumptions within its overall tax planning activities and periodically reassessing them in order to reflect changed circumstances as well as tax regulations. As a result, due to their inherent nature assessments of likelihood are judgemental and not susceptible to precise determination. The income tax amounts are disclosed in the note on income tax.

## 3. REVENUE AND OTHER INCOME

	Group	
	2017 \$	2016 \$
Sale of goods	105,559,565	96,410,779
Rendering of services	2,542,509	3,352,169
Total sales	<b>108,102,074</b>	99,762,948
Other income		
– Bad trade receivables recovered	82,149	89,230
– Changes in fair value of financial assets at fair value through profit or loss (Note 17)	431,516	111,061
– Dividend income from quoted corporations	2,123	1,524
– Gain on disposal of property, plant and equipment	32,307	39,918
– Gain on dilution of interest in associated companies (Note 13)	1,839,187	–
– Government grant	45,316	133,651
– Interest income – banks	100,228	80,878
– Net foreign exchange translation gain	–	260,034
– Rental income	13,654	15,791
Other income	<b>2,546,480</b>	732,087
Total sales and other income	<b>110,648,554</b>	100,495,035



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 4. EXPENSE BY NATURE

	Group	
	2017	2016
	\$	\$
Cost of inventories (Note 15)	78,192,604	71,141,343
Depreciation of investment property (Note 11)	3,012	3,146
Depreciation of property, plant and equipment (Note 10)	1,165,052	1,456,402
Employee compensation (Note 6)	14,143,139	13,515,824
Changes in fair value of financial liabilities at fair value through profit or loss (Note 24)	16,575	18,127
Net foreign exchange translation loss	824,549	–
Impairment of doubtful trade receivables (Note 25F)	1,381,715	1,035,640
Rental on operating leases	2,642,915	2,485,813
Inventories written off (Note 15)	863,525	590,135
Other expenses	6,493,089	6,603,763

## 5. FINANCE COSTS

	Group	
	2017	2016
	\$	\$
Interest expense:		
– Bank overdraft	–	1,165
– Bills payable to banks	302,046	252,668
– Bank loans	230,643	306,026
Total finance costs	532,689	559,859

## 6. EMPLOYEE COMPENSATION

	Group	
	2017	2016
	\$	\$
Wages and salaries	12,886,513	12,297,130
Contributions to defined contribution plans	1,256,626	1,218,694
Total employee compensation (Note 4)	14,143,139	13,515,824

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 7. INCOME TAX EXPENSE

### 7A. Components of tax expense recognised in profit or loss include:

	Group	
	2017 \$	2016 \$
<u>Current tax expense:</u>		
Current tax expense	1,354,952	1,419,893
Over adjustments to current tax in respect of prior periods	(73,830)	(5,518)
Subtotal	<u>1,281,122</u>	<u>1,414,375</u>
<u>Deferred tax income:</u>		
Deferred tax income	(268,282)	–
Subtotal	<u>(268,282)</u>	<u>–</u>
Total income tax expense	<u><u>1,012,840</u></u>	<u><u>1,414,375</u></u>

The reconciliation of income taxes below is determined by applying the Singapore corporate tax rate where the parent is domiciled. The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 17.0 % (2016: 17.0 %) to profit before income tax as a result of the following differences:

	Group	
	2017 \$	2016 \$
Profit before tax	5,208,028	3,644,385
Less: gain on dilution of interest in associated companies	(1,839,187)	–
Less: share of profit of associated companies	(818,338)	(559,402)
	<u>2,550,503</u>	<u>3,084,983</u>
Income tax expense at the above rate	433,586	524,447
Not deductible items	88,145	27,410
Tax exemptions	(51,459)	(16,744)
Over adjustments to current tax in respect of prior periods	(73,830)	(5,518)
Withholding taxes paid	82,031	572,213
Effect of different tax rates, rebates and incentives	203,270	202,745
Unrecognised deferred tax asset	331,097	109,822
Total income tax expense	<u><u>1,012,840</u></u>	<u><u>1,414,375</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 7. INCOME TAX EXPENSE (CONT'D)

### 7B. Deferred tax income recognised in profit or loss include:

	Group	
	2017 \$	2016 \$
<u>Deferred tax liabilities:</u>		
Excess of net book value of plant and equipment over tax values	49,807	(75,291)
<u>Deferred tax assets:</u>		
Provisions	(155,783)	75,291
Tax loss carryforwards	(162,306)	–
Total deferred tax income recognised in profit or loss	<u>(268,282)</u>	<u>–</u>

### 7C. Deferred tax balance in the statement of financial position:

The deferred tax amounts and movements during the year are as follows:

	Group	
	2017 \$	2016 \$
<u>Deferred tax liabilities:</u>		
Excess of net book value of plant and equipment over tax values	185,814	136,007
<u>Deferred tax assets:</u>		
Provisions	(291,790)	(136,007)
Tax loss carryforwards	(162,306)	–
Total deferred tax assets	<u>(268,282)</u>	<u>–</u>

	Company	
	2017 \$	2016 \$
<u>Deferred tax liabilities:</u>		
Excess of net book value of plant and equipment over tax values	189,964	124,372
<u>Deferred tax assets:</u>		
Provisions	(189,964)	(124,372)
Total deferred tax liability	<u>–</u>	<u>–</u>

It is impracticable to estimate the amount expected to be settled or used within one year.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 7. INCOME TAX EXPENSE (CONT'D)

### 7C. Deferred tax balance in the statement of financial position: (cont'd)

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses and capital allowances of \$4,568,000 and \$3,581,000 (2016: \$3,259,000 and \$4,477,000) respectively which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses and capital allowances in their respective countries of incorporation. These tax losses have no expiry date except for \$1,811,000 which will expire between 2019 to 2023. Unutilised capital allowances do not have expiry dates.

For the Singapore companies, the realisation of the future income tax benefits from tax losses carry forward and capital allowances is available for an unlimited future period, subject to conditions imposed by law including the retention of majority shareholders as defined.

## 8. DIVIDENDS

	<b>Group and Company</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Final tax exempt dividend paid of 0.7 cents (2016: tax exempt 0.7 cents) per share in respect of the previous reporting year	<b>933,100</b>	933,100
Interim tax exempt dividend paid of 0.5 cents (2016: tax exempt 0.5 cents) per share in respect of current reporting year	<b>666,500</b>	666,500
Total dividends paid in the year	<b>1,599,600</b>	1,599,600

In respect of the current reporting year, the directors have proposed that a final tax exempt dividend of 0.7 cents per share with a total of \$933,100 be paid to shareholders after the annual general meeting to be held on 20 April 2018. There are no income tax consequences. This dividend is subject to approval by shareholders at the next annual general meeting and has not been included as a liability in these financial statements. The proposed dividend for 2017 is payable in respect of all ordinary shares in issue at the end of the reporting year and including the new qualifying shares issued up to the date the dividend becomes payable. There are no income tax consequences of the dividends to shareholders.

## 9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares of no par value in issue during the reporting year.

	<b>Group</b>	
	<b>2017</b>	<b>2016</b>
The calculation of earnings per share is based on the following:		
Net profit for the year attributable to equity holders of the Company (\$)	<b>4,242,508</b>	2,040,876
Weighted average number of ordinary shares on issue for basic earnings per share	<b>133,300,000</b>	133,300,000

The Company and Group do not have any discontinued operations.

There is no dilution of earnings per share as there are no dilutive potential ordinary shares outstanding as at the year end. The denominators used are the same as those detailed above for both basic and diluted earnings per share.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 10. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings \$	Buildings on leasehold land \$	Machinery and equipment \$	Motor vehicles \$	Computer equipment, furniture and fixtures \$	Total \$
<b>Group</b>						
<u>Cost:</u>						
At 1 January 2016	3,296,137	10,460,508	4,888,054	1,698,904	5,610,409	25,954,012
Currency translation differences	(69,849)	8,625	(671)	(268)	(25,116)	(87,279)
Additions	–	31,150	18,270	296,684	165,824	511,928
Disposals	–	–	(39,073)	(238,621)	(437,364)	(715,058)
At 31 December 2016	3,226,288	10,500,283	4,866,580	1,756,699	5,313,753	25,663,603
Currency translation differences	68,228	(28,752)	(5,496)	(26,036)	(45,325)	(37,381)
Additions	–	–	155,161	247,030	162,645	564,836
Disposals	–	–	(36,384)	(207,082)	(356,393)	(599,859)
At 31 December 2017	3,294,516	10,471,531	4,979,861	1,770,611	5,074,680	25,591,199
<u>Accumulated depreciation:</u>						
At 1 January 2016	104,583	3,193,035	3,859,550	1,412,963	4,938,853	13,508,984
Currency translation differences	(2,322)	1,729	(405)	4,444	(16,919)	(13,473)
Depreciation charge	2,904	343,205	601,661	174,298	334,334	1,456,402
Disposals	–	–	(39,072)	(238,621)	(436,362)	(714,055)
At 31 December 2016	105,165	3,537,969	4,421,734	1,353,084	4,819,906	14,237,858
Currency translation differences	2,301	(5,498)	(2,139)	(25,554)	(39,069)	(69,959)
Depreciation charge	2,781	342,079	345,895	159,377	314,920	1,165,052
Disposals	–	–	(35,897)	(207,082)	(355,301)	(598,280)
At 31 December 2017	110,247	3,874,550	4,729,593	1,279,825	4,740,456	14,734,671
<u>Carrying value</u>						
At 1 January 2016	3,191,554	7,267,473	1,028,504	285,941	671,556	12,445,028
At 31 December 2016	3,121,123	6,962,314	444,846	403,615	493,847	11,425,745
At 31 December 2017	3,184,269	6,596,981	250,268	490,786	334,224	10,856,528

The depreciation expense is charged to profit or loss under:

	Company	
	2017 \$	2016 \$
Cost of sales	266,370	534,879
Operating expenses	898,682	921,523
Total	1,165,052	1,456,402

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 10. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Buildings on leasehold land \$	Machinery and equipment \$	Motor vehicles \$	Computer equipment, furniture and fixtures \$	Total \$
<b>Company</b>					
<u>Cost:</u>					
At 1 January 2016	3,574,468	577,415	726,095	3,460,995	8,338,973
Additions	—	2,730	151,593	36,890	191,213
Disposals	—	(35,800)	(83,151)	(387,754)	(506,705)
At 31 December 2016	3,574,468	544,345	794,537	3,110,131	8,023,481
Additions	—	38,000	166,352	67,977	272,329
Disposals	—	(35,800)	—	(260,515)	(296,315)
At 31 December 2017	3,574,468	546,545	960,889	2,917,593	7,999,495
<u>Accumulated depreciation:</u>					
At 1 January 2016	2,280,046	416,069	546,178	3,249,813	6,492,106
Depreciation charge	119,150	49,207	96,365	104,101	368,823
Disposals	—	(35,800)	(83,151)	(387,209)	(506,160)
At 31 December 2016	2,399,196	429,476	559,392	2,966,705	6,354,769
Depreciation charge	119,149	51,160	79,746	94,023	344,078
Disposals	—	(35,800)	—	(260,515)	(296,315)
At 31 December 2017	2,518,345	444,836	639,138	2,800,213	6,402,532
<u>Carrying value</u>					
At 1 January 2016	1,294,422	161,346	179,917	211,182	1,846,867
At 31 December 2016	1,175,272	114,869	235,145	143,426	1,668,712
At 31 December 2017	1,056,123	101,709	321,751	117,380	1,596,963

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 11. INVESTMENT PROPERTY

	Group	
	2017 \$	2016 \$
<u>At cost:</u>		
Balance at beginning of year	135,103	138,028
Currency translation difference	2,857	(2,925)
Balance at end of year	137,960	135,103
<u>Accumulated depreciation:</u>		
Balance at beginning of year	51,716	49,738
Depreciation charge	3,012	3,146
Currency translation difference	1,178	(1,168)
Balance at end of year	55,906	51,716
<u>Net book value:</u>		
Balance at beginning of year	83,387	88,290
Balance at end of year	82,054	83,387
	Group	
	2017 \$	2016 \$
<u>Fair value:</u>		
Fair value at end of year	288,524	282,000
Rental and service income from investment property	13,654	15,791
<u>Description/Location</u>	Gross floor area	Tenure of land
Condominium BL 20-3, 20th Floor, Mont' Kiara Palma, Jalan 1/70C, Off Bukit Kiara, Kuala Lumpur 50480, Malaysia	129 sq m	Freehold

The fair value of the investment property was based on a valuation made by independent professional valuer, Jones Lang Wootton, in June 2015. The firm holds a recognised and relevant professional qualification with sufficient recent experience in the location and category of the investment property being valued.

The fair value was measured based on the highest and best use method to reflect the actual market state and circumstances as of the end of the reporting year. The fair value was determined on a systematic basis at least once in five years by the independent professional valuer. Management determined that the highest and best use of the asset is the current use and that it would provide maximum value to market participants principally through its use in combination with other assets.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 11. INVESTMENT PROPERTY (CONT'D)

For fair value measurements categorised within the fair value hierarchy below, a description of the valuation techniques and the significant other observable inputs used in the fair value measurement are as follows:

Asset:	Freehold property at BL 20-3, 20th Floor, Mont' Kiara Palma, Jalan 1/70C, Off Bukit Kiara, Kuala Lumpur 50480, Malaysia
Fair value and fair value hierarchy – Level:	\$288,524 (2016: \$282,000). Level 2. (2016: Level 2).
Valuation technique for recurring fair value measurements:	Comparison with market evidence of recent transaction prices for similar properties.
Significant observable inputs and range (weighted average):	Price per square feet \$213 -\$225 (2016: \$209 -\$220)
Relationship of unobservable inputs to fair value:	Not applicable.
Sensitivity on management's estimates – 10% variation from estimate	Impact – lower by \$28,852; higher by \$28,852.

The investment property was leased out for the years ended 31 December 2017 and 31 December 2016.

The direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the year are not significant.

## 12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2017	2016
	\$	\$
<u>Movements during the year at cost:</u>		
Balance at beginning of year	5,084,379	5,439,769
Add: impairment loss charge reversed	200,000	–
Less: allowance for impairment	–	(355,390)
Balance at end of year	<u>5,284,379</u>	<u>5,084,379</u>
Net book value of subsidiaries	<u>20,607,414</u>	<u>22,736,055</u>
<u>Total cost comprising:</u>		
Unquoted equity shares at cost	6,500,579	6,500,579
Allowance for impairment	(1,216,200)	(1,416,200)
Total at cost	<u>5,284,379</u>	<u>5,084,379</u>



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The above is after the following allowance for impairment:

	Company	
	2017 \$	2016 \$
Balance at beginning of year	1,416,200	1,060,810
Reversal of impairment loss credit to profit or loss	(200,000)	–
Impairment loss charge to profit or loss	–	355,390
Balance at end of year	<u>1,216,200</u>	<u>1,416,200</u>

The reversal of impairment loss recorded for the reporting year 2017 mainly relates to subsidiary Megachem (Shanghai) Pte Ltd. The better than expected performance of this subsidiary and its wholly owned subsidiary, Megachem International Trading (Shanghai) Co., Ltd was considered sufficient evidence to reverse the impairment loss.

Details of the subsidiaries are as follows:

Name of subsidiary, principal activities, country of incorporation and place of operations	Effective percentage of equity held by Group	
	2017 %	2016 %
<b><i>Held by the Company</i></b>		
C.N. Chemicals Sdn. Bhd. (b) Trading in industrial chemicals Malaysia	100	100
Megachem Manufacturing Pte Ltd (a) Blending of chemicals and chemical-related products Singapore	100	100
Megachem Phils., Inc (c) Trading in chemicals and chemical-related products Philippines (Alas, Oplas & Co., CPA)	90	90
Megachem Raya Pte Ltd (a) Trading in chemicals and chemical-related products Singapore	74	74
Megachem (Shanghai) Pte Ltd (a) Trading in chemicals and chemical-related products Singapore	85	85

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name of subsidiary, principal activities, country of incorporation and place of operations	Effective percentage of equity held by Group	
	2017 %	2016 %
<b><i>Held by the Company (cont'd)</i></b>		
Megachem (UK) Ltd (b) Trading in chemicals and chemical-related products United Kingdom	85	85
Megachem Middle East FZE (b) Trading in chemicals and chemical-related products U.A.E	100	100
MGI Chemicals Private Limited (e) Trading in chemicals and chemical-related products India	100	100
Megachem Vietnam Company Limited (b) Trading in chemicals and chemical-related products Vietnam	100	100
MG Chemicals (Australia) Pty Ltd (d) Trading in chemicals and chemical-related products Australia	100	100
<b><i>Held by subsidiaries</i></b>		
Megachem International Trading (Shanghai) Co., Ltd (b) Trading in chemicals and chemical-related products People's Republic of China	85	85
P.T. Mega Kemiraya (b) Trading in chemicals and chemical-related products Indonesia	74	74

(a) Audited by RSM Chio Lim LLP.

(b) Audited by member firms of RSM International of which RSM Chio Lim LLP in Singapore is a member.

(c) Other independent auditor. Audited by firm of accountants other than member firms of RSM International of which RSM Chio Lim LLP in Singapore is a member. Their names are indicated above.

(d) Not audited as relieved from the requirement to prepare and lodge an audited financial report with the local authorities.

(e) 1% of the equity interest is held through a subsidiary, Megachem Manufacturing Pte Ltd.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

There are no subsidiaries that have non-controlling interests that are considered material to the reporting entity.

As is required by Rule 716 of the Listing Manual of The Singapore Exchange Securities Trading Limited, the audit committee and the board of directors of the Company have satisfied themselves that the appointment of different auditors for certain of its overseas subsidiaries would not compromise the standard and effectiveness of the audit of the Group.

## 13. INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
<u>Carrying value:</u>				
Unquoted equity shares at cost			<u>2,798,756</u>	<u>2,798,756</u>
<u>Movements in carrying value during the year:</u>				
Balance at beginning of year	3,126,186	5,198,955		
Additions	–	2,698,807		
Currency translation difference	93,406	94,174		
Gain on dilution of interest in associated companies (Note 3)	1,839,187	–		
Share of profit for the year	818,338	559,402		
Dividends received, net of tax	(355,921)	(5,425,152)		
Balance at end of year	<u>5,521,196</u>	<u>3,126,186</u>		
Share of net book value of associated companies	<u>5,521,196</u>	<u>3,126,186</u>		

Details of the associated companies are as follows:

Name of associated companies, principal activities, country of incorporation and place of operations	Effective percentage of equity held by Group	
	2017 %	2016 %
Megachem (Thailand) Public Company Limited * Trading in chemicals and chemical-related products Thailand (EY Office Limited)	36	48
<b><u>Held by Megachem (Thailand) Public Company Limited</u></b> Vertis Latex Co., Limited # Manufacturing of bedding products Thailand	11	14

\* Other independent auditor. Audited by firm of accountants other than member firms of RSM International of which RSM Chio Lim LLP in Singapore is a member. The name is indicated above.

# Vertis Latex Co., Limited is 30% owned by Megachem (Thailand) Public Company Limited.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 13. INVESTMENTS IN ASSOCIATED COMPANIES (CONT'D)

As is required by Rule 716 of the Listing Manual of The Singapore Exchange Securities Trading Limited the audit committee and the board of directors of the Company have satisfied themselves that the appointment of different auditors for its overseas associated companies would not compromise the standard and effectiveness of the audit of the Group.

In February 2017, the associated company, Megachem (Thailand) Public Company Limited ("MGT"), had obtained approval from the Securities and Exchange Commission of Thailand for its initial public offering ("IPO") on the Securities and Exchange Commission of Thailand - Market for Alternative Investment ("SET-MAI"). MGT issued an aggregate of 100,000,000 new shares (the "New Shares") for subscription at offering price of THB 1.89 per New Share.

Consequently upon completion of the IPO, the Group's shareholding interest in MGT has decreased from approximately 48% to approximately 36%. Gains on the dilution of shares amounting to S\$1.8 million is recorded under "other gains" (Note 3) in the Group's consolidated profit or loss statement. MGT will remain an associated company of the Group.

The associate is considered material to the reporting entity. The summarised financial information of the associate and the amounts (and not the reporting entity's share of those amounts) based on the financial statements of the associate are as follows. These are adjusted to reflect adjustments made by the reporting entity when using the equity method.

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Dividends paid	<b>975,792</b>	11,358,184
Revenue	<b>23,766,271</b>	22,172,945
Profit	<b>1,923,971</b>	1,274,516
Other comprehensive loss	<b>(44,243)</b>	-
Total comprehensive income	<b>1,968,214</b>	1,274,516
Current assets	<b>13,740,702</b>	8,448,338
Non-current assets	<b>4,136,634</b>	4,100,264
Current liabilities	<b>(2,251,180)</b>	(5,555,021)
Non-current liabilities	<b>(391,665)</b>	(412,064)
Net assets of the associate	<b>15,234,491</b>	6,580,978

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 14. TRANSFERABLE CLUB MEMBERSHIPS

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
Transferable club memberships at cost	77,871	77,871	47,071	47,071
Currency translation difference	(7,849)	(8,325)	–	–
Less: allowance for impairment	(43,070)	(43,070)	(43,070)	(43,070)
Total transferable club memberships	<u>26,952</u>	<u>26,476</u>	<u>4,001</u>	<u>4,001</u>
<u>Movement in allowance for impairment:</u>				
Balance at beginning and end of year	<u>43,070</u>	43,070	<u>43,070</u>	43,070

The carrying value of club memberships is at cost. The fair value of the club memberships is deemed to be not reliably measurable as the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair values. Consequently it is carried at cost less allowance for impairment.

## 15. INVENTORIES

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
Finished/trading goods	<u>23,914,744</u>	<u>20,368,700</u>	<u>10,763,479</u>	<u>10,046,724</u>

Inventories are stated after allowance.

### Movements in allowance during the year:

Balance at beginning of the year	2,937,690	2,415,982	1,431,000	1,272,654
Charge to profit or loss included in cost of sales	863,525	590,135	532,549	177,002
Used/amount written off	(90,349)	(73,553)	(32,549)	(18,656)
Currency translation differences	(76,042)	5,126	–	–
Balance at end of the year	<u>3,634,824</u>	<u>2,937,690</u>	<u>1,931,000</u>	<u>1,431,000</u>

The write-downs of inventories charged to profit or loss included in cost of sales (Note 4)  
(Increase)/decrease in inventories of finished/trading goods  
The amount of inventories included in cost of sales (Note 4)

Group	
2017 \$	2016 \$
863,525	590,135
<u>(3,546,044)</u>	<u>634,449</u>
<u>78,192,604</u>	<u>71,141,343</u>

Certain inventories are pledged as security for banking facilities as at 31 December 2017 and 31 December 2016 (see Note 22).

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
<u>Trade receivables:</u>				
Non-related parties	<b>29,620,558</b>	25,215,790	<b>7,828,287</b>	6,737,106
Subsidiaries	–	–	<b>7,476,216</b>	7,320,503
Associated company	<b>83,873</b>	26,916	<b>29,086</b>	–
Less: allowance for impairment – non-related parties	<b>(2,545,551)</b>	(1,269,558)	<b>(30,000)</b>	(35,791)
Less: allowance for impairment – subsidiaries	–	–	<b>(1,416,000)</b>	(1,553,000)
Net trade receivables – subtotal	<b>27,158,880</b>	23,973,148	<b>13,887,589</b>	12,468,818
<u>Other receivables:</u>				
Loan to subsidiaries	–	–	<b>4,019,538</b>	3,549,295
Subsidiaries	–	–	<b>1,616,096</b>	1,386,226
Non-related parties	<b>502,312</b>	260,006	–	–
Less: allowance for impairment – subsidiaries	–	–	<b>(1,194,000)</b>	(1,257,000)
Net other receivables – subtotal	<b>502,312</b>	260,006	<b>4,441,634</b>	3,678,521
Total trade and other receivables	<b>27,661,192</b>	24,233,154	<b>18,329,223</b>	16,147,339

The non-trade amounts due from subsidiaries are unsecured, interest-free and are repayable on demand.

The loans to subsidiaries are unsecured, bear interest at 3.5% – 5.0% (2016: 3.5% – 5.0%) per annum and are repayable on demand.

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
Singapore Dollar	<b>5,590,765</b>	5,042,342	<b>7,462,483</b>	6,582,704
United States Dollar	<b>5,582,784</b>	6,291,615	<b>10,405,692</b>	9,176,345
Malaysia Ringgit	<b>4,425,803</b>	2,776,761	–	–
China Renminbi	<b>3,267,293</b>	2,418,300	–	–
Indonesia Rupiah	<b>2,254,285</b>	2,266,771	–	–
Sterling Pound	<b>842,120</b>	1,299,480	–	–
Others	<b>5,698,142</b>	4,137,885	<b>461,048</b>	388,290
Total trade and other receivables	<b>27,661,192</b>	24,233,154	<b>18,329,223</b>	16,147,339

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
Balance at beginning of year	216,919	142,186	150,000	121,158
Realisation of forward contracts	(67,103)	(30,110)	–	(11,158)
Currency translation difference	201	(6,218)	–	–
Fair value gains (Note 3) (a)	431,516	111,061	430,000	40,000
Balance at end of year	581,533	216,919	580,000	150,000

(a) Included in the fair value gains during the reporting year are gains on fair value of listed equity securities and gains on fair value of forward foreign exchange contracts, amounting to \$430,000 (2016: \$40,000) and \$1,516 (2016: \$71,061) (Note 24) respectively.

Financial assets at fair value through profit or loss include the following:

	Group		Company	
	2017 At fair value \$	2016 At fair value \$	2017 At fair value \$	2016 At fair value \$
Listed equity securities – Singapore (Level 1)	580,000	150,000	580,000	150,000
Forward foreign exchange contracts (Level 2)	1,533	66,919	–	–
Total financial assets at fair value through profit or loss	581,533	216,919	580,000	150,000

## 18. OTHER CURRENT ASSETS

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
Advance payments to suppliers	877,491	1,223,779	259,727	264,624
Deposits to secure services	193,034	207,481	4,180	9,530
Prepayments	576,871	737,318	77,172	94,030
Total other current assets	1,647,396	2,168,578	341,079	368,184

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
Not restricted in use	<b>9,344,937</b>	11,560,037	<b>1,795,013</b>	3,291,107
Interest earning balances	<b>2,048,866</b>	2,992,501	–	–

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
Singapore Dollar	<b>1,307,059</b>	2,542,209	<b>1,087,104</b>	2,134,369
United States Dollar	<b>2,542,276</b>	2,771,785	<b>702,112</b>	1,145,063
Malaysia Ringgit	<b>2,675,362</b>	3,454,872	–	–
Indonesia Rupiah	<b>827,512</b>	1,109,720	–	–
China Renminbi	<b>343,127</b>	96,306	–	–
Sterling Pound	<b>202,432</b>	287,004	–	–
Others	<b>1,447,169</b>	1,298,141	<b>5,797</b>	11,675
Total cash and bank balances	<b>9,344,937</b>	11,560,037	<b>1,795,013</b>	3,291,107

Interest earning balances have an average maturity of one month (2016: one month) from the end of the reporting year with the following average interest rates:

	Group	
	2017	2016
Australia Dollar	–	0.7%
Malaysia Ringgit	<b>3.5%</b>	3.4%
India Rupees	<b>6.9%</b>	7.5%



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 19. CASH AND CASH EQUIVALENTS (CONT'D)

### 19A. Cash and cash equivalents in the statement of cash flows:

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
Amounts as shown above	<b>9,344,937</b>	11,560,037	<b>1,795,013</b>	3,291,107
Bank overdraft (Note 22)	–	(32,611)	–	–
Cash and cash equivalents for statement of cash flows purposes at end of the year	<b>9,344,937</b>	11,527,426	<b>1,795,013</b>	3,291,107

## 20. SHARE CAPITAL

	Group and Company	
	Number of shares issued	Share capital \$
Ordinary shares of no par value:		
Balance at 1 January 2016, 31 December 2016 and 31 December 2017	133,300,000	15,892,028

The ordinary shares of no par value are fully paid, carry one vote each and have no right to fixed income. The Company is not subject to any externally imposed capital requirements.

In order to maintain its listing on the Singapore Stock Exchange it has to have share capital with a free float of at least 10% of the shares. The Company met the capital requirement on its initial listing and the rules limiting treasury share purchases mean it will automatically continue to satisfy that requirement, as it did throughout the reporting year. Management receives a report from the share registrars frequently on substantial share interests showing the non-free float to ensure continuing compliance with the 10% limit throughout the reporting year.

The Company is a Catalist company and had appointed a sponsor to comply with the Catalist Rules and to facilitate certain corporate actions including rights issues, placement of shares, warrants or other convertible securities for cash, major transactions, transactions requiring shareholders' approval and schemes of arrangement.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 21. OTHER RESERVES

	Group	
	2017	2016
	\$	\$
Currency translation reserve	<u>(4,548,918)</u>	<u>(4,532,691)</u>

The currency translation reserve accumulates all foreign exchange differences arising from the translation of financial statements denominated in currencies other than the presentation currency.

This reserve is not available for cash dividends unless realised.

Movements in currency translation reserve during the year:

	Group	
	2017	2016
	\$	\$
Balance at beginning of year	<u>(4,532,691)</u>	(3,882,334)
Net currency translation differences of financial statements of foreign subsidiaries	<u>(16,227)</u>	(650,357)
Balance at end of year	<u>(4,548,918)</u>	<u>(4,532,691)</u>

## 22. BORROWINGS

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
<i>Current:</i>				
Bank overdraft (secured)	–	32,611	–	–
Bill payables (unsecured)	<b>8,436,944</b>	6,183,022	<b>7,645,132</b>	5,994,712
Bill payables (secured)	<b>376,639</b>	185,111	–	–
Short term bank loans (unsecured)	<b>3,900,000</b>	3,900,000	<b>2,000,000</b>	2,000,000
Short term bank loans (secured)	<b>1,038,150</b>	1,350,564	–	–
Long term bank loans (secured)	<b>809,736</b>	767,135	–	–
Current, total	<u><b>14,561,469</b></u>	12,418,443	<u><b>9,645,132</b></u>	7,994,712
<i>Non-current:</i>				
Long term bank loans (secured)	<u><b>2,120,264</b></u>	2,907,008	–	–
Non-current, total	<u><b>2,120,264</b></u>	2,907,008	–	–
Total borrowings	<u><b>16,681,733</b></u>	<u>15,325,451</u>	<u><b>9,645,132</b></u>	<u>7,994,712</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 22. BORROWINGS (CONT'D)

The secured long term bank loans as at 31 December 2017 and 31 December 2016 are secured by way of mortgage over property located at 11 Tuas Link 1 Singapore 638588 and industrial land at Seri Alam Industrial Park, Sungai Kapar, Indah, Klang, Selangor.

The secured bank overdraft, bill payables and short term bank loans as at 31 December 2017 and 31 December 2016 are collateralized on fixed and floating charges over all the assets and undertaking of certain subsidiaries, including all present and future freehold and leasehold property, book and other debts, chattels, goodwill and uncalled capital, both present and future.

(a) Maturity of borrowings

The bill payables and short term bank loans have an average maturity of 2 months (2016: 2 months) from the end of the reporting year. The long term bank loans have an average maturity of 5 years from the end of the reporting year (2016: 5 years).

(b) Currency of borrowings

Borrowings are denominated in the following currencies:

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Singapore Dollar	<b>6,132,468</b>	6,701,046	<b>2,621,353</b>	2,551,046
United States Dollar	<b>7,098,274</b>	5,022,671	<b>6,649,962</b>	5,022,671
Malaysia Ringgit	<b>1,318,885</b>	1,424,143	–	–
China Renminbi	<b>1,038,150</b>	953,609	–	–
Sterling Pound	–	582,066	–	–
Others	<b>1,093,956</b>	641,916	<b>373,817</b>	420,995
Total borrowings	<b>16,681,733</b>	15,325,451	<b>9,645,132</b>	7,994,712

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 22. BORROWINGS (CONT'D)

(c) Interest rate

All borrowings are at floating interest rates.

The weighted average effective interest rates of borrowings at the reporting date are as follows:

Group

	<b>SGD</b>	<b>2017 USD</b>	<b>Others</b>	<b>SGD</b>	<b>2016 USD</b>	<b>Others</b>
Bank overdraft	–	–	–	–	–	8.0%
Bills payables	<b>2.5%</b>	<b>2.7%</b>	<b>2.2%</b>	2.3%	2.4%	2.8%
Short term bank loans	<b>2.7%</b>	–	<b>5.8%</b>	2.6%	–	5.6%
Long term bank loans	<b>2.4%</b>	–	<b>6.7%</b>	2.0%	–	6.9%

Company

	<b>SGD</b>	<b>2017 USD</b>	<b>Others</b>	<b>SGD</b>	<b>2016 USD</b>	<b>Others</b>
Bills payables	<b>2.5%</b>	<b>2.6%</b>	<b>1.2%</b>	2.3%	2.4%	1.1%
Short term bank loans	<b>2.6%</b>	–	–	2.6%	–	–

(d) Carrying amounts and fair values

The fair value (Level 2) is a reasonable approximation of the carrying amount. The fair value of bank borrowings is a reasonable approximation of the carrying amount as they are floating rate instruments that are frequently re-priced to market interest rates.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 23. TRADE AND OTHER PAYABLES

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
<u>Trade payables:</u>				
Non-related parties	8,983,054	6,288,282	2,851,612	2,486,057
Associated company	14,480	28,376	–	–
Subsidiaries	–	–	395,204	528,398
Trade payables – subtotal	<u>8,997,534</u>	<u>6,316,658</u>	<u>3,246,816</u>	<u>3,014,455</u>
<u>Other payables:</u>				
Associated company	2,829	3,061	–	–
Subsidiaries	–	–	34,360	13,514
Due to a director	287,560	291,480	–	–
Advance payments from customers	1,510,574	1,623,988	–	–
Advance payments from subsidiary	–	–	1,250,076	1,615,972
Accrued liabilities	3,242,536	3,326,513	1,491,671	1,399,148
Other payables	1,539,400	1,444,869	809,361	819,971
Other payables – subtotal	<u>6,582,899</u>	<u>6,689,911</u>	<u>3,585,468</u>	<u>3,848,605</u>
Total trade and other payables	<u>15,580,433</u>	<u>13,006,569</u>	<u>6,832,284</u>	<u>6,863,060</u>

The non-trade amounts due to subsidiaries, associated company and a director are unsecured, interest-free and are repayable on demand.

Trade and other payables are denominated in the following currencies:

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
Singapore Dollar	2,980,123	3,184,134	2,604,323	2,776,143
United States Dollar	6,475,380	5,782,916	3,971,039	3,993,974
China Renminbi	2,132,003	1,812,605	–	–
Sterling Pound	1,608,416	734,172	106,579	48,586
Malaysia Ringgit	327,423	241,551	–	–
Others	2,057,088	1,251,191	150,343	44,357
Total trade and other payables	<u>15,580,433</u>	<u>13,006,569</u>	<u>6,832,284</u>	<u>6,863,060</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 24. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
<u>Forward foreign exchange contracts</u>				
Balance at beginning of year	17,070	50,595	–	481
Realisation of forward contracts	(17,117)	(45,729)	–	(481)
Currency translation difference	234	(5,923)	–	–
Fair value loss	16,575	18,127	–	–
Balance at end of year	16,762	17,070	–	–

Forward foreign exchange contracts are entered into to manage exposure to fluctuations in foreign currency exchange rates on expected sales and purchases denominated in United States Dollar ("USD") or Euro ("Euro").

The table below sets out the notional principal amounts of the outstanding forward foreign exchange contracts of the Group and the Company, and their corresponding favourable and unfavourable fair values (Level 2) at the reporting date. The amount of notional amount outstanding is not necessarily a measure or indication of market risk.

	Notional principal		Favourable fair value		Unfavourable fair value	
	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$
<b>Group</b>						
Sell Euro	449,717	520,659	831	3,137	1,128	14,594
Sell USD	–	59,206	–	–	–	529
Purchase Euro	252,754	147,764	685	184	2,603	2,545
Purchase USD	1,051,253	1,287,906	–	67,740	12,844	459
	1,753,724	2,015,535	1,516	71,061	16,575	18,127

The fair value (Level 2) of forward foreign exchange contracts is based on the current value of the difference between the contractual exchange rate and the market rate at the end of the reporting year. The valuation technique uses market observable inputs.

At 31 December 2017, the settlement date on forward foreign exchange contracts ranges from 1 to 9 months (2016: 1 to 10 months).

## 25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS

### 25A. Financial risk management

The main purpose for holding or issuing financial instruments is to raise and manage the finances for the entity's operating, investing and financing activities. There are exposures to the financial risks on the financial instruments such as credit risk, liquidity risk and market risk comprising interest rate, currency risk and price risk exposures.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 25A. Financial risk management (cont'd)

Management sets the objectives and underlying principles of financial risk management for the Group. This includes establishing policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits and hedging strategies in accordance with the objectives and underlying principles approved by the Board of Directors.

There have been no changes to the exposures to risk; the objectives, policies and processes for managing the risk and the methods used to measure the risk.

### 25B. Categories of financial assets and liabilities

The following table categorises the carrying amount of financial assets and liabilities recorded at the end of the reporting year:

	Group		Company	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Financial assets</b>				
Cash and bank balances	9,345	11,560	1,795	3,291
Trade and other receivables	27,661	24,233	18,329	16,147
Financial assets at fair value through profit or loss	582	217	580	150
	<u>37,588</u>	<u>36,010</u>	<u>20,704</u>	<u>19,588</u>
<b>Financial liabilities</b>				
Trade and other payables at amortised cost	14,070	11,383	5,582	5,247
Borrowings at amortised cost	16,682	15,325	9,645	7,995
Financial liabilities at fair value through profit or loss	17	17	–	–
	<u>30,769</u>	<u>26,725</u>	<u>15,227</u>	<u>13,242</u>

Further quantitative disclosures are included throughout these financial statements.

### 25C. Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to United States Dollar ("USD"), Euro ("Euro"), Sterling Pound ("GBP"), Japanese Yen ("Yen") and Malaysia Ringgit ("RM"). The Group uses forward exchange contracts to hedge certain of its exposure to foreign currency risk.

The Company has certain investments in foreign operations, whose net assets are exposed to currency translation risk. The Company does not hedge such currency translation risk.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 25C. Foreign currency risk (cont'd)

The Group's currency exposure is as follows:

In \$'000	Exposure in					Total
	SGD	USD	GBP	RM	Others	
<b>As at 31 December 2017</b>						
<b>Financial assets</b>						
Cash and bank balances	1,307	2,543	202	2,675	2,618	9,345
Trade and other receivables	8,367	19,292	1,480	4,432	13,422	46,993
Subtotal	9,674	21,835	1,682	7,107	16,040	56,338
<b>Financial liabilities</b>						
Trade and other payables	5,727	16,604	2,246	319	5,960	30,856
Borrowings	6,132	7,099	–	1,319	2,132	16,682
Subtotal	11,859	23,703	2,246	1,638	8,092	47,538
<b>Net financial assets/(liabilities)</b>	<b>(2,185)</b>	<b>(1,868)</b>	<b>(564)</b>	<b>5,469</b>	<b>7,948</b>	<b>8,800</b>
Less: Net financial (assets)/liabilities denominated in respective entities' functional currencies	2,185	1,474	557	(5,469)	(5,949)	(7,202)
Less: Currency forward	–	1,051	–	–	–	1,051
<b>Net currency exposure</b>	<b>–</b>	<b>657</b>	<b>(7)</b>	<b>–</b>	<b>1,999</b>	<b>2,649</b>
In \$'000	Exposure in					Total
	SGD	USD	GBP	RM	Others	
<b>As at 31 December 2016</b>						
<b>Financial assets</b>						
Cash and bank balances	2,542	2,772	287	3,455	2,504	11,560
Trade and other receivables	7,677	19,801	1,436	2,790	10,620	42,324
Subtotal	10,219	22,573	1,723	6,245	13,124	53,884
<b>Financial liabilities</b>						
Trade and other payables	5,783	16,761	870	241	4,548	28,203
Borrowings	6,701	5,023	614	1,424	1,563	15,325
Subtotal	12,484	21,784	1,484	1,665	6,111	43,528
<b>Net financial assets/(liabilities)</b>	<b>(2,265)</b>	<b>789</b>	<b>239</b>	<b>4,580</b>	<b>7,013</b>	<b>10,356</b>
Less: Net financial (assets)/liabilities denominated in respective entities' functional currencies	2,265	–	(239)	(4,580)	(6,897)	(9,451)
Less: Currency forward	–	1,229	–	–	(372)	857
<b>Net currency exposure</b>	<b>–</b>	<b>2,018</b>	<b>–</b>	<b>–</b>	<b>(256)</b>	<b>1,762</b>



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 25C. Foreign currency risk (cont'd)

The Company's currency exposure is as follows:

In \$'000	USD	Exposure in Others	Total
<b>As at 31 December 2017</b>			
<b>Financial assets</b>			
Cash and bank balances	702	6	708
Trade and other receivables	11,822	1,655	13,477
Subtotal	12,524	1,661	14,185
<b>Financial liabilities</b>			
Trade and other payables	2,721	257	2,978
Borrowings	6,650	374	7,024
Subtotal	9,371	631	10,002
<b>Net financial assets</b>	<b>3,153</b>	<b>1,030</b>	<b>4,183</b>
Less: Currency forward	-	-	-
<b>Net currency exposure</b>	<b>3,153</b>	<b>1,030</b>	<b>4,183</b>
<b>As at 31 December 2016</b>			
<b>Financial assets</b>			
Cash and bank balances	1,145	12	1,157
Trade and other receivables	10,931	1,444	12,375
Subtotal	12,076	1,456	13,532
<b>Financial liabilities</b>			
Trade and other payables	3,994	93	4,087
Borrowings	5,023	421	5,444
Subtotal	9,017	514	9,531
<b>Net financial assets</b>	<b>3,059</b>	<b>942</b>	<b>4,001</b>
Less: Currency forward	-	-	-
<b>Net currency exposure</b>	<b>3,059</b>	<b>942</b>	<b>4,001</b>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 25C. Foreign currency risk (cont'd)

The following table demonstrates the sensitivity of the Group's and Company's net profit after tax and equity to changes in foreign currency movement (assuming all other variables are consistent):

	2017		2016	
	Profit after tax \$'000	Equity \$'000	Profit after tax \$'000	Equity \$'000
			←	→
			Increase/(Decrease)	
<b>Group</b>				
USD: strengthen by 1%	(7)	(17)	17	6
USD: weaken by 1%	7	17	(17)	(6)
<b>Company</b>				
USD: strengthen by 1%	26	26	25	25
USD: weaken by 1%	(26)	(26)	(25)	(25)

The sensitivity rate used is the reasonably possible change in foreign exchange rates. For similar rate weakening of the functional currency against the relevant foreign currencies above, there would be comparable impacts in the opposite direction.

In management's opinion, the above sensitivity analysis is unrepresentative of the foreign currency risks as the historical exposure does not reflect the exposure in future.

The hypothetical changes in exchange rates are not based on observable market data (unobservable inputs). The sensitivity analysis is disclosed for each non-functional currency to which the entity has significant exposure at end of the reporting year. The analysis above has been carried out without taking into consideration hedged transactions.

### 25D. Equity price risk

The Group is exposed to equity security market risk because of the investments held by the Group which are classified as financial assets at fair value through profit or loss. These investments are listed on the Stock Exchange of Singapore.

The effect on post tax profit is not significant.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 25E. Interest rate risk

The floating rate debt instruments are with interest rates that are re-set regular intervals. The interest rates are disclosed in the respective notes.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk mainly arises from bills payable to banks and short term bank loans at floating interest rates. The Group manages its interest rate risk by keeping bills payable and short term bank loans to the minimum required to sustain the operations of the Group.

The following table demonstrates the sensitivity of the Group's and Company's net profit after tax and equity to changes in interest rates movement (assuming all other variables are consistent):

	2017		2016	
	← Increase/(Decrease) →			
	Profit after tax \$'000	Equity \$'000	Profit after tax \$'000	Equity \$'000
<b>Group</b>				
Increased by 1-percentage point	(137)	(136)	(125)	(123)
Decreased by 1-percentage point	137	136	125	123
<b>Company</b>				
Increased by 1-percentage point	(80)	(80)	(66)	(66)
Decreased by 1-percentage point	80	80	66	66

### 25F. Credit risk on financial assets

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security and/or credit insurance where appropriate to mitigate credit risk. For other financial assets such as advances to suppliers, interest bearing deposits and bank balances, the Group adopts the policy of dealing only with high credit quality counterparties.

As the Group and Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position except for corporate guarantees provided to banks (Note 26).

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 25F. Credit risk on financial assets (cont'd)

#### (i) Concentration of credit risk

The Group's and Company's major classes of financial assets are bank deposits and trade receivables.

The number of debtors that individually represented 5-10% of non-related party trade receivables are as follows:

	Group		Company	
	2017	2016	2017	2016
Number of debtors that represent: 5-10% of non-related party trade receivables	<u>2</u>	<u>1</u>	<u>2</u>	<u>2</u>

There is no concentration of credit risk with respect to trade receivables as there are a large number of customers.

#### (ii) Credit risk exposure

The credit risk for non-related party trade receivables by countries is as follows:

	Group		Company	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<u>By geographical areas</u>				
Africa	13	29	13	29
America	3,904	4,043	40	6
ASEAN	16,289	13,007	7,576	6,625
Australia	1,107	543	-	-
Middle East	1,956	1,364	15	17
North Asia	4,050	3,913	12	34
South Asia	1,497	1,516	87	26
UK and Europe	805	801	85	-
Total non-related party trade receivables	<u>29,621</u>	<u>25,216</u>	<u>7,828</u>	<u>6,737</u>

#### (iii) Financial assets that are neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits with reputable banks. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

The Group's and Company's non-related party trade receivables not past due include receivables amounting to \$19,989,000 (2016: \$15,779,000) and \$5,770,000 (2016: \$4,931,000) respectively.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 25F. Credit risk on financial assets (cont'd)

#### (iv) *Financial assets that are past due and/or impaired*

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of non-related party trade receivables past due but not impaired is as follows:

	Group		Company	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Past due less than 1 month	3,327	3,425	1,566	1,370
Past due 1 to 2 months	1,242	936	410	349
Past due 2 to 3 months	365	361	52	46
Past due 3 to 4 months	207	82	–	5
Past due over 4 months	1,945	3,363	–	–
Total	<u>7,086</u>	<u>8,167</u>	<u>2,028</u>	<u>1,770</u>

The carrying amount of non-related party trade receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	Group		Company	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Gross amount	2,546	1,270	30	36
Less: allowance for impairment	<u>(2,546)</u>	<u>(1,270)</u>	<u>(30)</u>	<u>(36)</u>
Total	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Movements in allowance for impairment during the year:

Balance at beginning of year	1,270	415	36	36
Currency translation differences	10	(55)	–	–
Additions (Note 4)	1,382	1,036	–	–
Bad debt written off	(34)	(37)	(6)	–
Bad debt recovered	(82)	(89)	–	–
Balance at end of year	<u>2,546</u>	<u>1,270</u>	<u>30</u>	<u>36</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 25F. Credit risk on financial assets (cont'd)

#### (iv) Financial assets that are past due and/or impaired (cont'd)

The carrying amount of related party trade and other receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	Company	
	2017 \$'000	2016 \$'000
Gross amount	2,610	2,810
Less: allowance for impairment	(2,610)	(2,810)
Total	—	—
Movements in allowance for impairment during the year:		
Balance at beginning of year	2,810	2,460
Additions	150	750
Bad debt recovered	(350)	(400)
Balance at end of year	2,610	2,810

### 25G. Liquidity risk – financial liabilities maturity analysis

The following table analyses the Group's and the Company's non-derivative financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

	Less than 1 year \$'000	2-5 years \$'000	5-10 years \$'000	Total \$'000
<b>Group</b>				
<b>As at 31 December 2017</b>				
Trade and other payables	14,070	—	—	14,070
Gross borrowing commitments	14,759	1,870	535	17,164
	<u>28,829</u>	<u>1,870</u>	<u>535</u>	<u>31,234</u>
<b>As at 31 December 2016</b>				
Trade and other payables	11,383	—	—	11,383
Gross borrowing commitments	12,617	2,542	767	15,926
	<u>24,000</u>	<u>2,542</u>	<u>767</u>	<u>27,309</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 25G. Liquidity risk – financial liabilities maturity analysis (cont'd)

	Less than 1 year \$'000	2-5 years \$'000	Total \$'000
<b>Company</b>			
<b>As at 31 December 2017</b>			
Trade and other payables	5,582	–	5,582
Gross borrowing commitments	9,702	–	9,702
	<u>15,284</u>	<u>–</u>	<u>15,284</u>
<b>As at 31 December 2016</b>			
Trade and other payables	5,247	–	5,247
Gross borrowing commitments	8,036	–	8,036
	<u>13,283</u>	<u>–</u>	<u>13,283</u>

The following table analyses the Group's derivative financial instruments for which contractual maturities are essential for understanding of the timing of cash flows by remaining contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Group	
	2017 \$'000	2016 \$'000
Gross settled currency forwards		
– Receipts	1,750	1,996
– Payments	<u>(1,781)</u>	<u>(1,944)</u>

Financial guarantee contracts – At the end of the reporting year, no claims on the financial guarantee are expected. All the corporate guarantees provided are disclosed in Note 26. The underlying bank facilities mature within 3 years (2016: 3 years).

The Group and Company manage the liquidity risk by maintaining sufficient cash balances and the availability of funding through an adequate amount of committed credit facilities.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 25H. Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue its business operations as a going concern and to maintain an optimal capital structure so as to maximise shareholders' value.

In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or reduce borrowings.

Under loans granted by a bank to a subsidiary, the Company is required by bank to observe certain financial covenants such as a minimum consolidated tangible networth of \$30 million and a maximum consolidated leverage ratio of 1.0. The Company monitors its capital regularly to ensure these covenants are not breached. In addition, the Group seeks to maintain maximum gearing ratio of 0.5 internally to minimise financial risks.

The bank defines leverage ratio as total bank borrowings liabilities divided by total tangible networth and shareholders' networth as aggregate of paid up capital and revenue reserves.

	Group		Company	
	2017	2016	2017	2016
Total borrowings (\$'000)	<b>16,682</b>	15,325	<b>9,645</b>	7,995
Total tangible networth (\$'000)	<b>44,615</b>	41,989	<b>24,837</b>	24,701
Leverage ratio	<b>0.37</b>	0.36	<b>0.39</b>	0.32

The Group and the Company are in compliance with all externally imposed capital requirements for the reporting years ended 31 December 2017 and 31 December 2016.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 25.1. Fair value measurements recognised in the statement of financial position

The fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The quantitative disclosures for the fair value measurements are disclosed below:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Group</b>				
<b>As at 31 December 2017</b>				
<u>Financial assets at fair value through profit or loss:</u>				
Forward foreign currency contracts	–	2	–	2
Quoted equity shares in corporations	580	–	–	580
Total	580	2	–	582
<u>Financial liabilities at fair value through profit or loss:</u>				
Forward foreign currency contracts	–	17	–	17
Total	–	17	–	17
<b>As at 31 December 2016</b>				
<u>Financial assets at fair value through profit or loss:</u>				
Forward foreign currency contracts	–	67	–	67
Quoted equity shares in corporations	150	–	–	150
Total	150	67	–	217
<u>Financial liabilities at fair value through profit or loss:</u>				
Forward foreign currency contracts	–	17	–	17
Total	–	17	–	17

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

### 25I. Fair value measurements recognised in the statement of financial position (cont'd)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Company</b>				
<b>As at 31 December 2017</b>				
<u>Financial assets at fair value through profit or loss:</u>				
Quoted equity shares in corporations	580	–	–	580
Total	580	–	–	580
<b>As at 31 December 2016</b>				
<u>Financial assets at fair value through profit or loss:</u>				
Quoted equity shares in corporations	150	–	–	150
Total	150	–	–	150

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy.

## 26. CONTINGENT LIABILITIES

The Company has provided an undertaking to provide continuing financial support to subsidiaries, MG Chemicals (Australia) Pty Ltd, MGI Chemicals Private Limited and Megachem Middle East FZE, to enable the subsidiaries to meet their obligations as and when they fall due. As at 31 December 2017, the net liabilities of MG Chemicals (Australia) Pty Ltd, MGI Chemicals Private Limited and Megachem Middle East FZE amounted to \$2,196,000 (2016: \$1,960,000), \$414,000 (2016: \$600,000) and \$284,000 (2016: \$254,000) respectively.

The Company has also provided corporate guarantees to banks for subsidiaries' loans. The corporate guarantees are as follows:

	Company	
	2017 \$'000	2016 \$'000
Corporate guarantees provided to banks on subsidiaries' loans payable	7,037	7,331

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 27. OPERATING LEASE PAYMENT COMMITMENTS – AS LESSEE

At the reporting date the total of future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
Not later than one year	<b>402,584</b>	415,935	<b>70,493</b>	72,709
Later than one year and not later than five years	<b>787,341</b>	824,587	<b>281,973</b>	290,836
Later than five years	<b>4,401,902</b>	5,054,051	<b>2,114,799</b>	2,253,977
Rental expense for the year	<b>503,659</b>	471,902	<b>72,709</b>	77,185

The leasehold land, on which the Company's building is situated, is under a non-cancellable operating lease expiring in 2053. The annual land rent payable is subject to annual revision.

## 28. CAPITAL COMMITMENTS

At the reporting date the capital commitments are as follows:

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
Purchase of plant and equipment	<b>172,178</b>	–	–	–

## 29. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### 29A. Related companies and related parties

FRS 24 defines a related party is an entity or person that directly or indirectly through one or more intermediaries controls, is controlled by, or is under common or joint control with, the entity in governing the financial and operating policies, or that has an interest in the entity that gives it significant influence over the entity in financial and operating decisions. It also includes members of the key management personnel or close members of the family of any individual referred to herein and others who have the ability to control, jointly control or significantly influence or for which significant voting power in such entity resides with, directly or indirectly, any such individual. The definition includes parents, subsidiaries, fellow subsidiaries, associates, joint ventures and post-employment benefit plans, if any.

Related companies in these financial statements include the members of the Company's group of companies.

There are transactions and arrangements between the reporting entity and members of the Group and the effects of these on the basis determined between the parties are reflected in these financial statements. The current intercompany balances are unsecured without fixed repayment terms and interest unless stated otherwise. For any significant non-current balances and significant financial guarantees, an interest or charge is charged or imputed unless stated otherwise.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 29. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

### 29A. Related companies and related parties (cont'd)

Intragroup transactions and balances that have been eliminated in these consolidated financial statements are not disclosed as related party transactions and balances below.

In addition to the transactions and balances disclosed elsewhere in the notes to the financial statements, significant transactions took place between the Group and related parties during the reporting year:

	<u>2017</u> \$	<u>2016</u> \$
<b>Group</b>		
<u>Associated companies</u>		
Sale of inventories	<b>718,830</b>	576,193
Purchases of inventories	<b>(102,306)</b>	(91,868)
<u>Related parties</u>		
Sale of inventories (a)	–	2,753
Purchases of inventories (a)(b)	<b>(71,141)</b>	(375,540)
Receiving transportation services (c)	<b>(24,285)</b>	(25,991)

(a) Sales and purchases of inventories from Chori Co., Ltd, a controlling shareholder of the Company, and its related companies.

(b) Purchases of inventories from SPCI Pte. Ltd., a company who has a common director with the Company.

(c) Transportation services rendered by Ipem Automation Sdn. Bhd., a company owned by associates of a director of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 29. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

### 29B. Compensation of directors and key management:

	Group		Company	
	2017 \$	2016 \$	2017 \$	2016 \$
Salaries and other short-term employee benefits of key management	<u>4,599,988</u>	<u>4,192,944</u>	<u>2,771,546</u>	<u>2,562,640</u>
Remuneration of directors of the Company	<u>1,459,837</u>	<u>1,286,419</u>	<u>1,459,837</u>	<u>1,286,419</u>
Fees to directors of the Company	<u>146,000</u>	<u>146,000</u>	<u>146,000</u>	<u>146,000</u>

Key management personnel are the directors and those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. The above amounts for key management compensation are for all the directors and other key management personnel.

## 30. FINANCIAL INFORMATION BY SEGMENTS

Disclosure of information about operating segments, products and services, the geographical areas, and the major customers are made as required by FRS 108 Operating Segments. This disclosure standard has no impact on the reported results or financial position of the Group.

Management has determined the operating segments based on the reports reviewed by the Executive Committee ("Exco") that are used to make strategic decisions. The Exco comprises the Managing Director, the Executive Director, the Group General Manager, the Chief Financial Officer and the Group Finance Manager.

The Exco considers the business from geographic segment perspective. The Group operates in four main geographical segments (Singapore, Malaysia, Indonesia and United Kingdom) by location of revenue and assets. Other geographical areas mainly comprise of China, the Philippines, Middle East, India, Vietnam and Australia, none of which constitute a separately, reportable segment. All geographic locations are engaged in the trading in chemical and chemical-related products. In addition, the segment in Singapore also derives revenue from blending.

As the revenue and assets for blending becomes a significant portion of the Singapore segment, the Exco considers it beneficial to review it as a separate business segment from the distribution activities of the Group.

The Exco assesses the performance of the operating segments based on net profit before tax.

Inter-segment sales are measured on the basis that the entity actually used to price the transfers. Internal transfer pricing policies of the reporting entity are as far as practicable based on market prices. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

There are no customers with revenue transactions of over 10% of the Group revenue.

The following tables illustrate the information about the reportable segment profit or loss, assets and liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 30. FINANCIAL INFORMATION BY SEGMENTS (CONT'D)

### Profit or loss and reconciliations for geographical segments

	Singapore \$'000	Malaysia \$'000	Indonesia \$'000	United Kingdom \$'000	Others \$'000	Unallocated \$'000	Group \$'000
<b>Financial year ended</b>							
<b>31 December 2017</b>							
<b>Sales</b>							
Total sales by segment	54,572	14,314	10,510	16,535	29,964	–	125,895
Inter-segment sales	(8,100)	(377)	(169)	(4,485)	(4,662)	–	(17,793)
	<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>
<b>Segment result</b>							
Gain on dilution of interest in associated companies	1,302	1,733	971	(1,772)	750	–	2,984
Interest income – banks						1,839	1,839
Finance costs						(533)	(533)
Share of profit of associated companies						818	818
Profit before income tax						2,224	5,208
Income tax expense						(1,013)	(1,013)
<b>Net profit</b>	<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>
<b>Other segment items</b>							
Capital expenditure	280	72	91	–	122	–	565
Depreciation	961	100	54	3	50	–	1,168

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 30. FINANCIAL INFORMATION BY SEGMENTS (CONT'D)

### Assets and liabilities and reconciliations for geographical segments

	Singapore \$'000	Malaysia \$'000	Indonesia \$'000	United Kingdom \$'000	Others \$'000	Unallocated \$'000	Group \$'000
<b>Financial year ended</b>							
<b>31 December 2017</b>							
<b>Segment assets</b>	<b>30,589</b>	<b>12,861</b>	<b>6,717</b>	<b>5,197</b>	<b>16,703</b>	–	<b>72,067</b>
Associated companies						5,521	5,521
Deferred tax assets						268	268
Interest earning cash balances						2,049	2,049
<b>Consolidated total assets</b>	<b>30,589</b>	<b>12,861</b>	<b>6,717</b>	<b>5,197</b>	<b>16,703</b>	<b>7,838</b>	<b>79,905</b>
<b>Segment liabilities</b>	<b>(5,629)</b>	<b>(878)</b>	<b>(718)</b>	<b>(4,660)</b>	<b>(3,712)</b>	–	<b>(15,597)</b>
Borrowings						(16,682)	(16,682)
Current income tax liabilities						(432)	(432)
<b>Consolidated total liabilities</b>	<b>(5,629)</b>	<b>(878)</b>	<b>(718)</b>	<b>(4,660)</b>	<b>(3,712)</b>	<b>(17,114)</b>	<b>(32,711)</b>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 30. FINANCIAL INFORMATION BY SEGMENTS (CONT'D)

### Profit or loss and reconciliations for geographical segments

	Singapore \$'000	Malaysia \$'000	Indonesia \$'000	United Kingdom \$'000	Others \$'000	Unallocated \$'000	Group \$'000
<b>Financial year ended 31 December 2016</b>							
<b>Sales</b>							
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>
<b>Segment result</b>							
Interest income – banks	1,399	1,146	1,299	(479)	199	–	3,564
Finance costs						81	81
						(560)	(560)
Share of profit of associated companies						559	559
Profit before income tax						80	3,644
Income tax expense						(1,414)	(1,414)
<b>Net profit</b>	<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>
<b>Other segment items</b>							
Capital expenditure	240	180	48	–	44	–	512
Depreciation	1,255	100	30	13	62	–	1,460

### Assets and liabilities and reconciliations for geographical segments

	Singapore \$'000	Malaysia \$'000	Indonesia \$'000	United Kingdom \$'000	Others \$'000	Unallocated \$'000	Group \$'000
<b>Financial year ended 31 December 2016</b>							
<b>Segment assets</b>							
Segment assets	30,554	10,217	6,746	7,016	12,557	–	67,090
Associated companies						3,126	3,126
Interest earning cash balances						2,993	2,993
<b>Consolidated total assets</b>	<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>
<b>Segment liabilities</b>							
Segment liabilities	(5,225)	(520)	(704)	(3,668)	(2,907)	–	(13,024)
Borrowings						(15,325)	(15,325)
Current income tax liabilities						(63)	(63)
<b>Consolidated total liabilities</b>	<u>(5,225)</u>	<u>(520)</u>	<u>(704)</u>	<u>(3,668)</u>	<u>(2,907)</u>	<u>(15,388)</u>	<u>(28,412)</u>



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 30. FINANCIAL INFORMATION BY SEGMENTS (CONT'D)

### Profit or loss and reconciliations for business segments

	Distribution \$'000	Manufacturing \$'000	Unallocated \$'000	Group \$'000
<b>Financial year ended 31 December 2017</b>				
<b>Sales</b>				
Total sales by segment	122,576	3,319	–	125,895
Inter-segment sales	(17,110)	(683)	–	(17,793)
	<u>105,466</u>	<u>2,636</u>	<u>–</u>	<u>108,102</u>
<b>Segment result</b>				
	2,877	107	–	2,984
Gain on dilution of interest in associated companies			1,839	1,839
Interest income – banks			100	100
Finance costs			(553)	(533)
Share of profit of associated companies			818	818
Profit before income tax			2,224	5,208
Income tax expense			(1,013)	(1,013)
<b>Net profit</b>	<u>2,877</u>	<u>107</u>	<u>1,211</u>	<u>4,195</u>
<b>Other segment items</b>				
Capital expenditure	558	7	–	565
Depreciation	553	615	–	1,168

### Assets and liabilities and reconciliations for business segments

	Distribution \$'000	Manufacturing \$'000	Unallocated \$'000	Group \$'000
<b>Financial year ended 31 December 2017</b>				
<b>Segment assets</b>				
	65,798	6,269	–	72,067
Associated companies			5,521	5,521
Deferred tax assets			268	268
Interest earning cash balances			2,049	2,049
<b>Consolidated total assets</b>	<u>65,798</u>	<u>6,269</u>	<u>7,838</u>	<u>79,905</u>
<b>Segment liabilities</b>				
	(15,222)	(375)	–	(15,597)
Borrowings			(16,682)	(16,682)
Current income tax liabilities			(432)	(432)
<b>Consolidated total liabilities</b>	<u>(15,222)</u>	<u>(375)</u>	<u>(17,114)</u>	<u>(32,711)</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 30. FINANCIAL INFORMATION BY SEGMENTS (CONT'D)

### Profit or loss and reconciliations for business segments

	Distribution \$'000	Manufacturing \$'000	Unallocated \$'000	Group \$'000
<b>Financial year ended 31 December 2016</b>				
<b>Sales</b>				
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>
<b>Segment result</b>				
Interest income – banks	3,319	245	–	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
			<u>(1,414)</u>	<u>(1,414)</u>
<b>Net profit</b>	<u>3,319</u>	<u>245</u>	<u>(1,334)</u>	<u>2,230</u>
<b>Other segment items</b>				
Capital expenditure	463	49	–	512
Depreciation	575	885	–	1,460

### Assets and liabilities and reconciliations for business segments

	Distribution \$'000	Manufacturing \$'000	Unallocated \$'000	Group \$'000
<b>Financial year ended 31 December 2016</b>				
<b>Segment assets</b>				
Associated companies	59,770	7,320	–	67,090
Interest earning cash balances			3,126	3,126
			2,993	2,993
<b>Consolidated total assets</b>	<u>59,770</u>	<u>7,320</u>	<u>6,119</u>	<u>73,209</u>
<b>Segment liabilities</b>				
Borrowings	(12,573)	(451)	–	(13,024)
Current income tax liabilities			(15,325)	(15,325)
			(63)	(63)
<b>Consolidated total liabilities</b>	<u>(12,573)</u>	<u>(451)</u>	<u>(15,389)</u>	<u>(28,412)</u>

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

## 31. ITEMS IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In addition to the charges and credits disclosed elsewhere in the notes to the financial statements, this item includes the following charges:

	Group	
	2017 \$'000	2016 \$'000
Fees on audit services to independent auditors:		
– Company's independent auditor	103	103
– Other independent auditors	106	110
Total	<u>209</u>	<u>213</u>
Other fees to independent auditors:		
– Company's independent auditor	17	17
– Other independent auditors	14	–
Total	<u>31</u>	<u>17</u>

## 32. CHANGES AND ADOPTION OF FINANCIAL REPORTING STANDARDS

For the current reporting year new or revised Singapore Financial Reporting Standards and the related Interpretations to FRS ("INT FRS") were issued by the Singapore Accounting Standards Council. Those applicable to the reporting entity are listed below. These applicable new or revised standards did not require any material modification of the measurement methods or the presentation in the financial statements.

FRS No.	Title
FRS 7	Amendments to FRS 7: Disclosure Initiative
FRS 12	Amendments to FRS 12: Recognition Of Deferred Tax Assets For Unrealised Losses
FRS 112	Amendments to FRS 112: Disclosure of Interests in Other Entities

# NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

### 33. NEW OR AMENDED STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

For the future reporting years new or revised Singapore Financial Reporting Standards (International) and the related Interpretations to SFRS(I)s (“SFRS(I) INT”) were issued by the Singapore Accounting Standards Council and these will only be effective for future reporting years. Those applicable to the reporting entity for future reporting years are listed below.

SFRS(I) No.	Title	Effective date for periods beginning on or after
SFRS(I) 1	First-time Adoption of Singapore Financial Reporting Standards (International)	1 Jan 2018
SFRS(I) 9	Financial Instruments	1 Jan 2018
SFRS(I) 15	Revenue from Contracts with Customers. Amendments to, Clarifications to SFRS(I) 15 Revenue from Contracts with Customers	1 Jan 2018
SFRS(I) 16	Leases and Leases – Illustrative Examples & Amendments to Guidance on Other Standards	1 Jan 2019
SFRS(I) INT 22	Foreign Currency Transactions and Advance Consideration	1 Jan 2018
SFRS(I) INT 23	Uncertainty over Income Tax Treatments	1 Jan 2019

On the basis of the facts and circumstances that exist as at 31 December 2017 (see accounting policy in Note 2 and disclosures in Note 25) the entity does not anticipate that the application of SFRS(I) 9 will have a material impact on the financial position and/or financial performance of the entity, apart from providing more extensive disclosures on the entity’s financial instruments.

On the basis of the current accounting treatment of the major sources of revenue (see accounting policy in Note 2 and disclosures in Note 3 on revenue) the management does not anticipate that the application of SFRS(I) 15 will have a material impact on the financial position and/or financial performance of the entity, apart from providing more extensive disclosures on the revenue transactions.

SFRS(I) 16 Leases is effective for annual periods beginning on or after 1 January 2019 and it replaces SFRS(I) 1-17 and the related interpretations. For the lessee, the biggest change introduced is that almost all leases will be brought onto the statements of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. For the lessor, the accounting remains largely unchanged and the distinction between operating and finance leases is retained. SFRS(I) 16 will be adopted in the financial statements when it becomes mandatory, with the following effects: For the entity’s non-cancellable operating lease commitments of \$5,591,827 as at 31 December 2017 (Note 27), a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under SFRS(I) 16. Thus, the entity will have to recognise a right-of-use asset and a corresponding liability in respect of all these leases (unless they qualify for low value or short-term leases upon the application of SFRS(I) 16) which might have a material impact on the amounts recognised in the financial statements. However, it is not practicable to provide a reasonable financial estimate of that effect until the detailed review by management is completed.

Companies listed on the Singapore Exchange (“SGX”) currently reporting under SFRSs are required to comply with new Singapore Financial Reporting Standards (International) (SFRS(I)s (issued by the Singapore Accounting Standards Council) that would be equivalent to the International Financial Reporting Standards (“IFRS”) (issued by the International Accounting Standards Board (IASB)) for reporting years beginning on after 1 January 2018. The new framework is referred to as SFRS(I)s. Non-listed companies may elect to voluntarily apply SFRS(I)s. SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International) will be adopted in the financial statements when it becomes mandatory. Based on the current accounting treatment of the account balances management does not anticipate that the application of SFRS(I) 1 will have a material impact on the financial position and/or financial performance of the entity.

# STATISTICS OF SHAREHOLDING

As at 14 March 2018

Number of Issued Shares	:	133,300,000
Class of Shares	:	Ordinary
Voting Rights	:	One vote per share
Number of Treasury Shares and Subsidiary Holdings	:	Nil

## DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS AS AT 14 MARCH 2018

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	2	0.52	143	0.00
100 – 1,000	27	7.00	23,268	0.02
1,001 – 10,000	200	51.81	1,226,900	0.92
10,001 – 1,000,000	146	37.82	8,892,231	6.67
1,000,001 AND ABOVE	11	2.85	123,157,458	92.39
<b>TOTAL</b>	<b>386</b>	<b>100.00</b>	<b>133,300,000</b>	<b>100.00</b>

## TWENTY LARGEST SHAREHOLDERS

NO.	SHAREHOLDER'S NAME	NUMBER OF SHARES HELD	%
1	CITIBANK NOMINEES SINGAPORE PTE LTD	40,095,570	30.08
2	CHEW CHOON TEE	36,821,416	27.62
3	TAN BOCK CHIA	15,426,083	11.57
4	DB NOMINEES (S) PTE LTD	10,113,000	7.59
5	HONG LEONG FINANCE NOMINEES PTE LTD	6,008,000	4.51
6	HSBC (SINGAPORE) NOMINEES PTE LTD	5,357,900	4.02
7	MAYBANK KIM ENG SECURITIES PTE LTD	3,375,000	2.53
8	CHONG SIEW LEE MICHELE (ZHANG SHULI MICHELE)	2,306,000	1.73
9	FUNG KOON YAU	1,428,000	1.07
10	RAFFLES NOMINEES (PTE) LTD	1,175,200	0.88
11	YEO KAI HOE	1,051,289	0.79
12	DBS NOMINEES PTE LTD	895,200	0.67
13	OCBC NOMINEES SINGAPORE PTE LTD	506,000	0.38
14	LIAU BIN BIN	444,296	0.33
15	LEE SIEW TIONG	352,000	0.26
16	LIM & TAN SECURITIES PTE LTD	300,000	0.23
17	CHAN KHAI LEONG	299,000	0.22
18	OCBC SECURITIES PRIVATE LTD	286,000	0.21
19	ONG AH INN	200,000	0.15
20	PUAR HAI KUAN	174,000	0.13
<b>TOTAL</b>		<b>126,613,954</b>	<b>94.97</b>

# STATISTICS OF SHAREHOLDING

As at 14 March 2018

## SUBSTANTIAL SHAREHOLDERS AS AT 14 MARCH 2018

	DIRECT INTEREST		DEEMED INTEREST	
	NO. OF SHARES	%	NO. OF SHARES	%
CHEW CHOON TEE <sup>(1)(2)</sup>	46,151,416	34.62	444,296	0.33
TAN BOCK CHIA <sup>(3)</sup>	25,426,083	19.07	–	–
CHORI CO., LTD <sup>(4)</sup>	–	–	39,976,670	29.99
TORAY INDUSTRIES, INC <sup>(5)</sup>	–	–	39,976,670	29.99

Notes:

- 1) Chew Choon Tee is deemed to have an interest in the 444,296 shares held in the name of his spouse, Liao Bin Bin, by virtue of Section 7 of the Companies Act Cap. 50.
- 2) 9,330,000 shares of Chew Choon Tee are held through nominees.
- 3) 10,000,000 shares of Tan Bock Chia are held through nominees.
- 4) 39,976,670 shares of Chori Co., Ltd are held under the custodian account of Chori Co., Ltd. maintained with Citibank Nominees Singapore Pte. Ltd.
- 5) Deemed interest arising from 39,976,670 shares held by Chori Co., Ltd. Toray Industries, Inc owns 51.25% of the issued share capital of Chori Co., Ltd.

## PERCENTAGE OF SHAREHOLDINGS IN PUBLIC HANDS

15.91% of the Company issued paid-up capital is held in the hands of public. Accordingly, the Company had complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be held at 11 Tuas Link 1, Singapore 638588 on Friday, 20 April 2018 at 10.00 a.m. to transact the following business:—

## AS ORDINARY BUSINESS

1. To receive and adopt the Statement By Directors and Audited Financial Statements of the Company for the financial year ended 31 December 2017 together with the Auditor's Report thereon. **(Resolution 1)**
2. To declare a final tax exempt dividend of 0.7 cent per share for the financial year ended 31 December 2017 (2016: final tax exempt dividend of 0.7 cent per share). **(Resolution 2)**
3. To approve Directors' fees of S\$146,000 for the financial year ending 31 December 2018 (2017: S\$146,000). **(Resolution 3)**
4. To re-elect Mr Jeffrey Tan Bock Chia who is retiring pursuant to Article 104 of the Company's Constitution. **(Resolution 4)**  
  
*Key information on Mr Jeffrey Tan Bock Chia is found on page 19 of the Company's 2017 annual report.*
5. To re-elect Dr Tay Kin Bee who is retiring pursuant to Article 104 of the Company's Constitution. **(Resolution 5)**  
  
*Dr Tay Kin Bee will, upon re-election as a Director of the Company, continue to serve as an Independent Director, member of the Audit Committee and as chairman of the Remuneration Committee. Dr Tay Kin Bee is considered independent for the purpose of Rule 704(7) of the Listing Manual of the Singapore Exchange Securities Trading Limited Section B: Rules of Catalist (the "Catalist Rules").*  
  
*Key information on Dr Tay Kin Bee is found on page 20 of the Company's 2017 annual report.*
6. To re-appoint Messrs RSM Chio Lim LLP as auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 6)**

## AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following Ordinary Resolutions with or without any modifications:—

7. Authority to allot and issue shares and convertible securities **(Resolution 7)**
  - (a) "That pursuant to Section 161 of the Companies Act, Cap. 50, and Rule 806 of the Catalist Rules, authority be and is hereby given to the Directors of the Company at any time to such persons and upon such terms and for such purposes as the Directors may in their absolute discretion deem fit, to:
    - (i) issue and allot shares in the capital of the Company ("Shares") whether by way of rights, bonus or otherwise;
    - (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require Shares to be issued or other transferable rights to subscribe for or purchase Shares including but not limited to the creation and issue of warrants, debentures or other instruments convertible into Shares;
    - (iii) issue additional Instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalisation issues; and

# NOTICE OF ANNUAL GENERAL MEETING

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- (b) (notwithstanding the authority conferred by the shareholders may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the authority was in force,

provided always that

- (i) the aggregate number of Shares to be issued pursuant to this resolution (including Shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) does not exceed 100% of the total number of issued shares excluding treasury shares and subsidiary holdings of the Company, of which the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) to be issued other than on a pro rata basis to shareholders of the Company does not exceed 50% of the total number of issued shares excluding treasury shares of the Company.

For the purpose of this resolution, the total number of issued shares excluding treasury shares is based on the Company's total number of issued shares excluding treasury shares and subsidiary holdings at the time this resolution is passed, after adjusting for;

- a) new shares arising from the conversion or exercise of convertible securities, or
- b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time this resolution is passed provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Catalist Rules, and
- c) any subsequent bonus issue, consolidation or subdivision of the Company's shares, and
- (ii) such authority shall, unless revoked or varied by the Company at a general meeting, continue in force until the conclusion of the next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier."

*[See Explanatory Note (i)]*

8. To approve the renewal of Interested Person Transactions Mandate

**(Resolution 8)**

"That

- (a) approval be and is hereby given for the purposes of Chapter 9 of the Catalist Rules ("Chapter 9"), for the Company, its subsidiaries and associated companies (if any) that are considered to be "entities at risk" under Chapter 9, or any of them, to enter into any of the transactions falling within the types of interested person transactions described in the Appendix to the Company's Letter to Shareholders dated 29 March 2018 (the "Letter"), with any party who is of the class of interested persons described in the Appendix to the Letter provided that such transactions are made on normal commercial terms and are not prejudicial to the interests of the Company and its minority shareholders and in accordance with the Company's review procedures for such interested person transactions (the "IPT Mandate");



# NOTICE OF ANNUAL GENERAL MEETING

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- (b) the IPT Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier; and
  - (c) the Directors of the Company and each of them be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they and/or each of them may consider expedient, necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution as they or each of them may in their or each of their absolute discretion deem fit in the interests of the Company.”
9. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

## NOTICE OF BOOKS CLOSURE

**NOTICE IS HEREBY GIVEN** that subject to approval being obtained at the Annual General Meeting to be held at 11 Tuas Link 1, Singapore 638588 on Friday, 20 April 2018 at 10.00 a.m.

1. A final tax exempt dividend of 0.7 cent per share for the financial year ended 31 December 2017 will be paid on 31 May 2018.
2. The Share Transfer Books and Register of Members of the Company will be closed on 11 May 2018 for preparation of dividend warrants. 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 5.00 p.m. on 10 May 2018 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 shares as at 5.00 p.m. on 10 May 2018 will be entitled to the payment of the proposed dividend.

BY ORDER OF THE BOARD

Kwok Hwee Peng  
Toon Choi Fan  
Company Secretaries

29 March 2018

# NOTICE OF ANNUAL GENERAL MEETING

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**Explanatory Notes:–**

- (i) The ordinary resolution in item no. 7 is to authorise the Directors of the Company from the date of this Meeting until the next Annual General Meeting to issue shares and convertible securities in the Company up to an amount not exceeding in aggregate 100% of the issued share capital of the Company of which the total number of shares and convertible securities issued other than on a pro-rata basis to existing shareholders shall not exceed 50% of the issued share capital of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company. This authority will, unless revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.

**Notes:**

- 1) Except for a member who is a Relevant Intermediary as defined under section 181(6) of the Companies Act, Chapter 50, a member of the Company entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies in his stead. Relevant Intermediary is entitled to appoint more than two proxies to attend and vote in this Meeting.
- 2) A proxy need not be a member of the Company.
- 3) If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.
- 4) The instrument appointing a proxy must be deposited at the office of the Company's Share Registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road, #11-02 Singapore 068898 not less than forty-eight (48) hours before the time appointed for the Meeting.

**Personal Data Privacy:**

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting of the Company and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting of the Company (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting of the Company (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes") and (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

# MEGACHEM LIMITED

(Company Registration No.: 198803293M)  
(Incorporated in the Republic of Singapore)

## PROXY FORM

### IMPORTANT

1. Pursuant to Section 181(1C) of the Companies Act, Chapter 50 (the "Act"), Relevant Intermediaries may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors are requested to contact their respective Agent Banks for any queries they may have with regard to their appointment as proxies.

\*I/We \_\_\_\_\_ (Name) NRIC/Passport No\* \_\_\_\_\_

of \_\_\_\_\_

being \*a member/members of Megachem Limited (the "Company"), hereby appoint

Name	Address	NRIC/ Passport No.	Proportion of shareholdings to be represented by proxy (%)

\*and/or

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as \*my/our \*proxy/proxies to vote for \*me/us on \*my/our behalf at the Annual General Meeting of the Company to be held at 11 Tuas Link 1, Singapore 638588 on 20 April 2018 at 10.00 a.m. and at any adjournment thereof.

\*I/we direct \*my/our \*proxy/proxies to vote for or against the Ordinary Resolutions to be proposed at the Annual General Meeting as indicated with an "X" in the spaces provided hereunder. If no specific directions as to voting are given, the \*proxy/proxies will vote or abstain from voting at \*his/their discretion.

No.	Ordinary Resolutions	For	Against
1.	To receive and adopt the Statement By Directors and Audited Financial Statements of the Company for the financial year ended 31 December 2017 together with the Auditor's Report thereon.		
2.	To declare a final tax exempt dividend of 0.7 cent per share for the financial year ended 31 December 2017.		
3.	To approve Directors' fees of S\$146,000 for the financial year ending 31 December 2018.		
4.	To re-elect Mr Jeffrey Tan Bock Chia pursuant to Article 104 of the Company's Constitution.		
5.	To re-elect Dr Tay Kin Bee pursuant to Article 104 of the Company's Constitution.		
6.	To re-appoint Messrs RSM Chio Lim LLP as auditors of the Company and to authorise the Directors to fix their remuneration.		
7.	To authorise Directors to issue shares pursuant to Section 161 of the Companies Act, Chapter 50.		
8.	To approve the renewal of Interested Person Transactions Mandate.		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2018

**Total Number of Shares Held**

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\_\_\_\_\_  
Signature(s) of Member(s)/Common Seal

\* Delete accordingly



**IMPORTANT.** Please read notes overleaf

**Notes:-**

1. Except for a member who is a Relevant Intermediary as defined under Section 181(6) of the Companies Act, Chapter 50 of Singapore (the "Companies Act"), a member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. Such proxy need not be a member of the Company.
2. Where a member of the Company appoints two (2) proxies, he shall specify the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each such proxy.
3. Pursuant to Section 181(1C) of the Companies Act, a member who is a Relevant Intermediary is entitled to appoint more than two proxies to attend, speak and vote at the meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the proxy form.
4. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its attorney or duly authorised officer.
5. A corporation which is a member of the Company may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with its Constitution and Section 179 of the Companies Act.
6. The instrument appointing proxy or proxies, together with the power of attorney or other authority (if any) under which it is signed, or notarially certified copy thereof, must be deposited at the office of the Company's Share Registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road, #11-02 Singapore 068898 not less than forty-eight (48) hours before the time set for the Annual General Meeting.
7. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert the number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members of the Company, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by the member of the Company.
8. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of members of the Company whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have shares entered against their names in the Depository Register seventy-two (72) hours before the time appointed for holding the Annual General Meeting as certified by The Central Depository (Pte) Limited to the Company.
9. A Depositor shall not be regarded as a member of the Company entitled to attend the Annual General Meeting and to speak and vote thereat unless his name appears on the Depository Register seventy-two (72) hours before the time set for the Annual General Meeting.
10. An investor who buys shares using CPF monies ("CPF Investor") and/or SRS monies ("SRS Investor") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Annual General Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Annual General Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Annual General Meeting.

**PERSONAL DATA PRIVACY**

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 29 March 2018.

AFFIX  
STAMP

The Company Secretary  
**MEGACHEM LIMITED**  
c/o Tricor Barbinder Share Registration Services  
80 Robinson Road #11-02  
Singapore 068898

#### **PAPERS USED**

In line with Megachem continuing efforts to promote environmental sustainability, the papers used in this Annual Report are made from chlorine-free recycled and virgin pulps.

Cover – Antarctic Snow Cambric, 280gsm

Review pages – Cacoon Silk, 130gsm

Financial pages – Green Forest, 100gsm

Soft copies of this Annual Report may be downloaded from [www.megachem.com.sg](http://www.megachem.com.sg) in the portable document format (PDF) so as to reduce consumption of resources from printing and distributing hard copies.

#### **REDUCE, REUSE AND RECYCLE**



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