MEGACHEM LIMITED

Un-audited Financial Statements and Dividend Announcement

For The Full Year Ended 31 December 2011

MegaChem®

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UNAUDITED RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2011

The directors of Megachem Limited are pleased to advise the following unaudited results of the Group for the full year ended 31 December 2011.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FULL YEAR ENDED 31 DECEMBER 2011

	For the full year ended 31 December 2011	For the full year ended 31 December 2010	Variance Favourable/(Unfavourable)	
	S$	S$	S$'000	%
Sales	**106,864,091**	94,982,700	11,881	12.5%
Cost of sales	**(84,725,804)**	(75,266,458)	(9,459)	(12.6%)
Gross profit	**22,138,287**	19,716,242	2,422	12.3%
Other operating income	**168,649**	472,365	(304)	(64.3%)
Distribution costs	**(10,174,559)**	(8,877,516)	(1,297)	(14.6%)
Adminstrative expenses	**(4,222,359)**	(3,986,004)	(236)	(5.9%)
Other operating expenses	**(2,362,606)**	(2,115,709)	(247)	(11.7%)
Finance costs	**(285,301)**	(149,176)	(136)	(91.3%)
Share of profit of associated companies	**1,025,853**	1,099,238	(73)	(6.7%)
Profit before income tax	**6,287,964**	6,159,440	129	2.1%
Income tax expense	**(1,203,100)**	(1,336,756)	134	10.0%
Net profit	**5,084,864**	4,822,684	262	5.4%
Other comprehensive income:				
Exchange differences on translating foreign operations, net of tax	**(676,871)**	90,360	(767)	(849.1%)
Total comprehensive income	**4,407,993**	4,913,044	(505)	(10.3%)
Net profit attributable to:				
Equity holders of the Company	**4,855,569**	4,626,500	229	5.0%
Non-controlling interests	**229,295**	196,184	33	16.9%
Net profit	**5,084,864**	4,822,684	262	5.4%
Total comprehensive income attributable to:				
Equity holders of the Company	**4,187,528**	4,757,869	(570)	(12.0%)
Non-controlling interests	**220,465**	155,175	65	42.1%
Total comprehensive income	**4,407,993**	4,913,044	(505)	(10.3%)
Earnings per share of profit attributable to equity holders of the Company during the financial year - basic and diluted	**3.64 cents**	3.47 cents		

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

	For the full year ended 31 December 2011 S$	For the full year ended 31 December 2010 S$
Other operating income		
Bad debt recovered	**65,192**	257,670
Change in fair value of financial assets held for trading	**1,859**	42,479
Dividend income	**2,709**	2,930
Gain on disposal of property, plant and equipment	**32,975**	27,443
Grant income	**7,882**	89,954
Interest income from banks	**34,261**	30,006
Management fees	**23,771**	21,883
	168,649	472,365
Change in fair value of financial assets held for trading - forward foreign exchange contracts	**1,859**	27,479
Change in fair value of financial assets held for trading - listed equity security	**(69,500)**	15,000
Change in fair value of financial liabilities held for trading - forward foreign exchange contracts	**(8,338)**	(11,431)
Depreciation	**(651,757)**	(632,643)
Interest on borrowings	**(285,301)**	(149,176)
Impairment of trade receivables	**(226,045)**	(110,972)
Net foreign exchange loss	**(298,647)**	(370,184)
Write off of inventory	**(392,198)**	(310,531)
Adjustment for over provision for tax in respect of prior financial year	**87,226**	448

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Group		Company	
	31 December 2011 S$	31 December 2010 S$	**31 December 2011 S$**	31 December 2010 S$
ASSETS				
Current assets				
Cash and bank balances	**7,612,909**	6,767,092	**1,640,648**	1,230,259
Trade and other receivables	**22,331,381**	23,285,158	**14,959,164**	14,011,845
Inventories	**21,248,675**	18,218,340	**12,654,372**	11,508,471
Financial assets held for trading	**47,359**	142,479	**46,584**	121,163
Other current assets	**2,514,188**	2,452,998	**511,407**	1,262,779
	53,754,512	50,866,067	**29,812,175**	28,134,517
Non-current assets				
Transferable club memberships	**32,512**	33,170	**4,001**	4,001
Investment in associated companies	**4,567,059**	4,216,120	**99,949**	99,949
Investments in subsidiaries	**-**	-	**4,984,251**	4,319,751
Investment property	**125,011**	131,831	-	-
Property, plant and equipment	**9,016,068**	3,473,783	**1,714,184**	1,916,787
	13,740,650	7,854,904	**6,802,385**	6,340,488
Total assets	**67,495,162**	58,720,971	**36,614,560**	34,475,005
LIABILITIES				
Current liabilities				
Trade and other payables	**10,997,636**	10,712,967	**5,850,929**	5,179,168
Current income tax liabilities	**436,620**	559,792	**174,020**	223,385
Borrowings	**10,645,539**	9,721,305	**9,379,845**	8,805,220
Financial liabilities held for trading	**8,338**	11,431	**-**	-
	22,088,133	21,005,495	**15,404,794**	14,207,773
Non-current liabilities				
Deferred tax liabilities	**41,232**	45,063	**-**	10,000
Borrowings	**4,700,000**	20,985	**-**	-
	4,741,232	66,048	**-**	10,000
Total liabilities	**26,829,365**	21,071,543	**15,404,794**	14,217,773
NET ASSETS	**40,665,797**	37,649,428	**21,209,766**	20,257,232
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	**15,892,028**	15,892,028	**15,892,028**	15,892,028
Other reserves	**(1,872,530)**	(1,204,489)	-	-
Retained earnings	**24,914,938**	21,392,369	**5,317,738**	4,365,204
	38,934,436	36,079,908	**21,209,766**	20,257,232
Non-controlling interests	**1,731,361**	1,569,520	**-**	-
Total equity	**40,665,797**	37,649,428	**21,209,766**	20,257,232

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

Amount repayable in one year or less, or on demand

As at 31 December 2011		As at 31 December 2010	
Secured	Unsecured	Secured	Unsecured
S$965,694	S$9,679,845	S$916,085	S$8,805,220

Amount repayable after one year

As at 31 December 2011		As at 31 December 2010	
Secured	Unsecured	Secured	Unsecured
S$4,700,000	-	S$20,985	-

Details of collateral

The secured borrowings were collateralized on:

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

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE FULL YEAR ENDED 31 DECEMBER 2011

	For the full year ended 31 December 2011 S$	For the full year ended 31 December 2010 S$
Cash flows from operating activities		
Net profit	**5,084,864**	4,822,684
Adjustments for:		
Change in fair value of financial assets held for trading	**69,500**	(15,000)
Depreciation	**651,757**	632,643
Dividend income	**(2,709)**	(2,930)
Gain on disposal of property, plant and equipment	**(32,975)**	(27,443)
Share of profit of associated companies	**(1,025,853)**	(1,099,238)
Income tax expense	**1,203,100**	1,336,756
Interest income	**(34,261)**	(30,006)
Interest expense	**285,301**	149,176
Operating cash flow before working capital changes	**6,198,724**	5,766,642
Change in operating assets and liabilities		
Trade and other receivables	**1,355,734**	(2,717,021)
Inventories	**(3,030,335)**	(4,110,744)
Financial assets held for trading	**25,620**	(27,479)
Trade and other payables	**275,203**	1,914,272
Financial liabilities held for trading	**(3,093)**	(17,726)
Foreign exchange differences	**(174,740)**	59,577
Cash from operations	**4,647,113**	867,521
Income tax paid	**(1,330,103)**	(931,897)
Interest received	**34,261**	30,006
Net cash from/(used in) operating activities	**3,351,271**	(34,370)
Cash flows from investing activities		
Dividend received	**103,642**	254,102
Partial payment for purchase of property, plant and equipment	**(282,354)**	-
Purchase of interest from non-controlling shareholder	**-**	(17,207)
Purchase of property, plant and equipment	**(6,257,749)**	(789,258)
Proceeds from sale of property, plant and equipment	**50,846**	123,111
Net cash used in investing activities	**(6,385,615)**	(429,252)
Cash flows from financing activities		
Dividends paid	**(1,333,000)**	(1,999,500)
Dividends paid by subsidiaries to non-controlling shareholders	**(58,624)**	(17,520)
(Repayment)/proceeds from borrowings	**(484,457)**	1,512,242
Proceeds from short term bank loans	**1,124,735**	1,539,635
Proceeds from long term bank loans	**5,000,000**	-
Repayment of finance lease liability	**(19,374)**	(41,507)
Interest paid	**(275,835)**	(195,456)
Net cash from financing activities	**3,953,445**	797,894
Net increase in cash and cash equivalents held	**919,101**	334,272
Cash and cash equivalents at beginning of the financial year	**6,767,092**	6,577,618
Effects of exchange rate changes on cash and cash equivalents	**(73,284)**	(144,798)
Cash and cash equivalents at end of the financial year	**7,612,909**	6,767,092

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

STATEMENTS OF CHANGES IN EQUITY FOR THE FULL YEAR ENDED 31 DECEMBER 2011

		Attributable to equity holders of the Company				
The Group	Total equity S$	Parent Sub-total S$	Share capital S$	Other reserves S$	Retained earnings S$	Non-controlling interests S$
Balance at 1 January 2011	37,649,428	36,079,908	15,892,028	(1,204,489)	21,392,369	1,569,520
Total comprehensive income for the financial year	4,407,993	4,187,528	-	(668,041)	4,855,569	220,465
Final dividend relating to FY2010 paid	(991,724)	(933,100)	-	-	(933,100)	(58,624)
Interim dividend relating to FY2011 paid	(399,900)	(399,900)	-	-	(399,900)	-
Balance at 31 December 2011	40,665,797	38,934,436	15,892,028	(1,872,530)	24,914,938	1,731,361
Balance at 1 January 2010	34,770,611	33,321,539	15,892,028	(1,335,858)	18,765,369	1,449,072
Total comprehensive income for the financial year	4,913,044	4,757,869	-	131,369	4,626,500	155,175
Final dividend relating to FY2009 paid	(1,350,520)	(1,333,000)	-	-	(1,333,000)	(17,520)
Interim dividend relating to FY2010 paid	(666,500)	(666,500)	-	-	(666,500)	-
Purchase of interest from non-controlling shareholder	(17,207)	-	-	-	-	(17,207)
Balance at 31 December 2010	37,649,428	36,079,908	15,892,028	(1,204,489)	21,392,369	1,569,520

The Company	Total equity S$	Share capital S$	Retained earnings S$
Balance at 1 January 2011	20,257,232	15,892,028	4,365,204
Total comprehensive income for the financial year	2,285,534	-	2,285,534
Final dividend relating to FY2010 paid	(933,100)	-	(933,100)
Interim dividend relating to FY2011 paid	(399,900)	-	(399,900)
Balance at 31 December 2011	21,209,766	15,892,028	5,317,738
Balance at 1 January 2010	20,584,996	15,892,028	4,692,968
Total comprehensive income for the financial year	1,671,736	-	1,671,736
Final dividend relating to FY2009 paid	(1,333,000)	-	(1,333,000)
Interim dividend relating to FY2010 paid	(666,500)	-	(666,500)
Balance at 31 December 2010	20,257,232	15,892,028	4,365,204

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

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

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

There were no unissued shares in the capital of the Company reserved for the exercise of any option nor were there any treasury share as at the end of the financial years ended 31 December 2011 and 31 December 2010.

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

The total number of issued ordinary shares, excluding treasury shares, as at the end of the financial years ended 31 December 2011 and 31 December 2010 was 133,300,000.

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

The figures have not been audited or reviewed.

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

Not applicable.

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

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial year as those of the audited financial statements for the financial year ended 31 December 2010.

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

On 1 January 2011, the Group adopted the new and revised FRS and Interpretations to FRS (INT FRS) that are relevant to its operations and mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective FRS and INT FRS.

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

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

Earnings per ordinary shares (in cents)	**For the full year ended 31 December 2011**	For the full year ended 31 December 2010
a) Based on weighted average number of ordinary shares on issue	**3.64**	3.47
b) On a fully diluted basis	**3.64**	3.47
Weighted average number of ordinary shares in issue for earnings per share	133,300,000	133,300,000

7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:
(a) current financial year reported on; and
(b) immediately preceding financial year.

	Group		**Company**	
	31 December 2011	31 December 2010	**31 December 2011**	31 December 2010
Net asset value per ordinary share based on issued share capital (cents)	**29.21**	27.07	**15.91**	15.20
No of ordinary shares used in calculation	**133,300,000**	133,300,000	**133,300,000**	133,300,000

8. REVIEW OF PERFORMANCE

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

Profitability Highlights	H2 2011	H1 2011	H2 2010	Variance H2 2011 vs H1 2011 Fav/(Unfav)	%	Variance H2 2011 vs H2 2010 Fav/(Unfav)	%
Sales (S$'mil)	49.6	57.3	49.8	(7.7)	(13.4%)	(0.2)	(0.4%)
Gross profit (S$'mil)	10.5	11.6	9.9	(1.2)	(9.9%)	0.6	6.0%
Gross profit margin	21.2%	20.3%	19.9%	0.9% pts	na	1.3% pts	na
Total expenses and finance cost (S$'mil)	8.6	8.4	8.0	(0.2)	(2.0%)	(0.6)	(7.7%)
Other operating income (S$'000)	120	49	85	71	144.9%	34	40.4%
Share of profit of associated companies (S$'000)	444	582	639	(138)	(23.7%)	(195)	(30.5%)
Net profit before tax (S$'mil)	2.5	3.8	2.6	(1.4)	(36.1%)	(0.2)	(7.0%)
Net profit after tax (S$'mil)	2.0	3.0	2.0	(1.0)	(32.9%)	-	1.9%
Earnings per share attributable to the equity holders of the Company (cents)	1.42	2.23	1.48	(0.81)	(36.3%)	(0.06)	(4.1%)
Annualised return on equity (ROE)	9.7%	15.8%	10.9%	(6.1% pts)	na	(1.2% pts)	na

Profitability Highlights	FY 2011	FY 2010	Variance FY 2011 vs FY 2010 Fav/(Unfav)	%
Sales (S$'mil)	106.9	95.0	11.9	12.5%
Gross profit (S$'mil)	22.1	19.7	2.4	12.3%
Gross profit margin	20.7%	20.8%	(0.1% pts)	na
Total expenses and finance cost (S$'mil)	17.0	15.1	(1.9)	(12.7%)
Other operating income (S$'000)	169	472	(304)	(64.3%)
Share of profit of associated companies (S$'000)	1,026	1,099	(73)	(6.7%)
Net profit before tax (S$'mil)	6.3	6.2	0.1	2.1%
Net profit after tax (S$'mil)	5.1	4.8	0.3	5.4%
Earnings per share attributable to the equity holders of the Company (cents)	3.64	3.47	0.17	4.9%
Annualised return on equity (ROE)	12.5%	12.8%	(0.3% pts)	na

Balance Sheet Highlights	Half year ended 31 December 2011	30 June 2011	31 December 2010	30 June 2010	Full year ended 31 December 2011	31 December 2010	Variance H2 2011 vs H1 Fav/(Unfav)	Variance FY 2011 vs FY 2010 Fav/(Unfav)
Cash (S$'mil)	7.6	7.8	6.8	6.3	7.6	6.8	(0.2)	0.8
Borrowings (S$'mil)	15.3	14.7	9.7	9.9	15.3	9.7	(0.6)	5.6
Current ratio	2.43	2.17	2.42	2.41	2.43	2.42	0.26	0.01
Gearing ratio	0.39	0.39	0.27	0.28	0.39	0.27	-	(0.12)
Net tangible assets per share attributable to equity holders of the Company (cents)	29.21	28.10	27.07	26.35	29.21	27.07	1.11	2.14
Inventory turnover (days)	106	84	87	88	91	84	(22)	(7)
Trade receivables turnover (days)	87	78	86	91	78	86	(9)	8

8(a) PROFITABILITY ANALYSIS

8(a)(i) Sales

	For the half year ended			Variance H2 2011 vs H1 2011 Fav/(Unfav)		Variance H2 2011 vs H2 2010 Fav/(Unfav)	
	31 December 2011	30 June 2011	31 December 2010				
	S$'000	S$'000	S$'000	S$'000	%	S$'000	%
ASEAN	**32,294**	37,378	32,031	(5,084)	(13.6)	263	0.8
North Asia	**4,401**	6,654	6,086	(2,253)	(33.9)	(1,685)	(27.7)
America	**5,197**	3,386	2,536	1,811	53.5	2,661	104.9
South Asia	**2,699**	3,307	3,244	(608)	(18.4)	(545)	(16.8)
Europe	**1,995**	2,537	2,381	(542)	(21.4)	(386)	(16.2)
Middle East	**1,706**	2,284	2,365	(578)	(25.3)	(659)	(27.9)
Australia	**1,314**	1,712	1,098	(398)	(23.2)	216	19.7
Africa	**-**	-	46	**-**	**-**	(46)	(100.0)
Total	**49,606**	57,258	49,787	(7,652)	(13.4)	(181)	(0.4)

	For the full year ended 31 December 2011		For the full year ended 31 December 2010		Variance Fav/(Unfav)	
	S$'000	**%**	S$'000	%	S$'000	%
ASEAN	**69,672**	**65.2**	64,155	67.5	5,517	8.6
North Asia	**11,055**	**10.4**	9,562	10.1	1,493	15.6
America	**8,582**	**8.0**	4,531	4.8	4,051	89.4
South Asia	**6,006**	**5.6**	5,445	5.7	561	10.3
Europe	**4,532**	**4.3**	4,914	5.2	(382)	(7.8)
Middle East	**3,990**	**3.7**	4,097	4.3	(107)	(2.6)
Australia	**3,027**	**2.8**	2,187	2.3	840	38.4
Africa	**-**	**-**	92	0.1	(92)	(100.0)
Total	**106,864**	**100.0**	94,983	100.0	11,881	12.5

<u>H2 2011 vs H1 2011</u>

The optimism in the recovery of the global economy softened in the second half of 2011 ("H2 2011") as the ongoing concerns with the European debt issues escalated, hampering growth in demand. As such, sales for H2 2011 contracted by S$7.7 million or 13.4% from record sales in the first half of 2011 ("H1 2011"). The fall in demand in H2 2011 was evident across all the regions except America (primarily South America) which grew considerably by S$1.8 million or 53.5%.

<u>H2 2011 vs H2 2010</u>

As compared to second half of 2010 ("H2 2010"), we experienced a marginal dip in sales by S$0.2 million or 0.4%. Similarly, the increase in sales was attributed to American market (primarily South American), which grew by 104.9%. This was offset by lower sales from North and South Asia (mainly China and India), Middle East and Europe.

<u>FY2011 vs FY2010</u>

For the full year ended 2011 ("FY2011"), driven by the positive external factors in H1 2011, sales increased by S$11.9 million or 12.5% to S$106.9 million which surpassed previous record sales of S$95.0 million for the full year ended 2010 ("FY2010"). Other than the Middle Eastern and European markets which shrank marginally by 2.6% and 7.8% respectively, we experienced strong growth across most of our core markets.

<u>Custom-blending Activities</u>

	For the half year ended			For the full year ended		Variance Fav/(Unfav) 31 December 2011 vs 31 December 2010	
	31 December 2011	30 June 2011	31 December 2010	**31 December 2011**	31 December 2010		
	S$'000	S$'000	S$'000	**S$'000**	S$'000	S$'000	%
Sales from manufacturing activities	**1,795**	1,868	1,464	**3,664**	3,116	548	17.6

It was a record year in respect of sales from custom-blending services as we achieved S$3.7 million sales for FY2011 vis-à-vis S$3.1 million for FY2010 even though demand for such services was marginally lower in H2 2011 by S$0.1 million or 3.9%.

8(a)(ii) Gross profit

H2 2011 vs H1 2011

Gross profit margin improved from 20.3% in H1 2011 to 21.2% in H2 2011 as sales contribution increased in the higher margin South American market vis-à-vis the Chinese and India markets. The higher gross profit margin softened the reduction in gross profit brought about from the lower sales, resulting in an overall decline in gross profit by S$1.2 million or 9.9% as compared to H1 2011.

H2 2011 vs H2 2010

The gross profit margin for H2 2011 also compared favorably to H2 2010 for same reason as mentioned above.

FY2011 vs FY2010

Gross profit margin for FY2010 and FY2011 was 20.8% and 20.7% respectively as overall sales contribution by regions remained relatively unchanged. Consequently, as a result of higher sales achieved year-on-year, gross profit for FY2011 increased by S$2.4 million or 12.3% over the last financial year.

8(a)(iii) Other operating income

H2 2011 vs H1 2011

Compared to H1 2011, other operating income increased by S$71,000 or 144.9% mainly due to higher bad debt recovered of S$41,000 and gains from the disposal of property, plant and equipment of S$24,000. Bad debt recovered in the second half of 2011 related mainly to debtors from Vietnam.

H2 2011 vs H2 2010

The higher other operating income recorded for H2 2011 was primarily due to foreign exchange loss incurred in H2 2010, which resulted in the reversal of foreign exchange gain previously recorded S$125,000, offset partially by lower bad debt recovered and grant income of S$66,000 and S$35,000 respectively.

FY2011 vs FY2010

Other operating income decreased by S$304,000 or 64.3% year-on-year primarily due to lower bad debt recovered of S$192,000, grant income of S$82,000 and fair value gain for financial assets held for trading of S$41,000.

8(a)(iv) Operating expenses

H2 2011 vs H1 2011

For second half of 2011, total operating expenses, which consist of distribution, administrative and other operating expenses, amounted to S$8.5 million, which was S$0.2 million or 1.9% higher than the first half of 2011. This was primarily due to higher impairment of trade receivables for debtors in Malaysia and India of S$0.2 million, higher rental expenses of S$0.1 million offset by lower employee remuneration of S$0.2 million in line with the financial performance in the second half.

H2 2011 vs H2 2010

Total operating expenses for H2 2011 increased by S$0.6 million or 7.3% as compared to S$7.9 million incurred for H2 2010 mainly due to higher employee remuneration, rental expenses and bad debt of S$0.4 million, S$0.2 million and S$0.1 million respectively, partially offset by lower foreign exchange loss of S$0.2 million.

FY2011 vs FY2010

For FY2011, total operating expenses amounted to S$16.8 million and this represented an increase of S$1.8 million or 11.9% as compared to the previous financial year.

The main variances in our operating expenses were as follows:

	For the full year ended 31 December 2011 S$'000	For the full year ended 31 December 2010 S$'000	Variance Fav/(Unfav) S$'000	%
Change in fair value of financial assets held for trading – listed equity security	**70**	-	(70)	(100.0%)
Depreciation of property, plant and equipment	**652**	633	(19)	(3.0%)
Employee remuneration and related expenses	**9,427**	8,381	(1,045)	(12.5%)
Impairment of trade receivables	**226**	111	(115)	(103.7%)
Net foreign exchange loss	**299**	370	72	19.3%
Professional fees	**490**	614	124	20.1%
Travelling and transport expenses	**891**	712	(179)	(25.1%)
Rental for operating leases	**1,720**	1,431	(289)	(20.2%)

Year-on-year, the overall increase in operating expenses such travelling and transport expenses, bank charges, maintenance expenses were directly related to the pick up in business activities. The increased in activities also resulted in higher inventory holding and additional staff headcount giving rise to an increase in rental expenses and employee remuneration respectively.

The impairment of trade receivables for the current year was higher than previous year mainly due to impairment made for debtors in Malaysia and India in H2 2011.

On the other hand, the decrease in professional fees in the current year was basically due to non-recurring expenses such as incorporation expenses of new subsidiary in India, closure costs for representative offices, consultant fees for business continuity management program and design fees for corporate brochures incurred last year.

A smaller net foreign exchange loss was incurred for FY2011 mainly due to a slower rate of depreciation of Vietnamese dong as compare to FY2010. However, this was offset by the weakening of the Indian rupees against the United State dollars towards the end of 2011.

8(a)(v) Finance costs

Finance costs comprised the following:-

	For the full year ended 31 December 2011 S$'000	For the full year ended 31 December 2010 S$'000
Finance costs		
Bills payable to banks	**217**	134
Bank loans	**61**	6
Hire purchase	**7**	9
	285	149

As compared to H1 2011, finance costs in H2 2011 was slightly higher by S$7,000 or 5.3%. Year-on year, finance costs increased by S$136,000 or 91.3% due to higher borrowings in the current financial year to finance the purchase of property, plant and equipment as well as to fund the increase in business activities.

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

H2 2011 vs H1 2011 and H2 2011 vs H2 2010

The flood situation in Thailand dented the performance of our associated companies in H2 2011 which resulted in the decrease in our share of profit of associated companies by S$0.1 million or 23.7% vis-à-vis H1 2011. As compared to H2 2010, the decrease was marginally higher by 30.5%.

FY2011 vs FY2010

With the Thailand economy experiencing both positive and negative market conditions throughout the year, we recorded our share of profit for FY2011 of S$1.0 million, which represented a decrease of S$0.1 million or 6.7% from S$1.1 million in FY2010.

8(a)(vii) Profit before income tax

H2 2011 vs H1 2011

Against H1 2011, profit before tax for H2 2011 contracted by S$1.4 million or 36.1% mainly due to lower sales, lower share of profit of associated companies and higher operating expenses.

H2 2011 vs H2 2010

Profit before income tax for H2 2011 was lower by S$0.2 million or 7.0% compared to H2 2010 primarily due to higher operating expenses and lower share of profit of associated companies though the decline was cushioned by higher gross profit margin achieved for H2 2011.

FY2011 vs FY2010

In summary, for FY2011, we surpassed the record profit before income tax achieved in FY2010, albeit marginally by S$0.1 million or 2.1%, to hit S$6.3 million for the current financial year. This was achieved on the back of another record year of sales offset by higher operating expenses and lower other operating income and share of profit of associated companies.

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

Consistent with 8(a)(vii) above, profit attributable to the equity holders of the Company for H2 2011 decreased by S$1.1 million or 36.4% to S$1.9 million as compared to H1 2011 and was only marginally lower than H2 2010 by 4.2%.

Year-on-year, profit attributable to equity holders for FY2011 was S$0.2 million or 5.0% better than FY2010.

8(b) BALANCE SHEET ANALYSIS

Property, plant and equipment and borrowings
With the completion of the purchase of the factory in December 2011, property, plant and equipment as at 31 December 2011 increased by S$5.6 million or 167.7% as compared to 30 June 2011, or S$5.5 million or 159.5% as compared to 31 December 2010. As the purchase consideration was financed partially by long term bank loan, this led to the increase in overall borrowings from S$9.7 million as at 31 December 2010 to S$15.3 million as at 31 December 2011. The long term bank loan has a tenor of 5 years and carries floating interest rate. Despite the increase in borrowings, our gearing ratio remained at an acceptable level of 0.39.

Receivables
In line with lower sales in H2 2011 as compared to H1 2011, third party trade receivables decreased by S$3.0 million or 12.1% from S$24.8 million as at 30 June 2011 to S$21.8 million as at 31 December 2011. Turnover days for H2 2011 at 87 days deteriorated as compared to 78 days in H1 2011, although it remained relatively the same as compared to 86 days in H2 2010. For the full year, turnover days improved to 78 days in FY2011 as compared to 86 days for FY2010 and third party trade receivables balance as at 31 December 2011 decreased by S$1.0 million as compared to balance as at 31 December 2010.

Inventory and trade and other payables
Inventory as at 31 December 2011 at S$21.2 million remained relatively the same as compared to S$21.4 million as at 30 June 2011 as inventory purchases were reduced following the fall in sales in H2 2011. However, turnover days for H2 2011 worsen to 106 days from 84 days in H1 2011 despite our attempts to reduce inventory in anticipation of slower demand. For the full year, turnover days increased from 84 days in FY2010 to 91 days in FY2011. From S$18.2 million as at 31 December 2010, inventory increased by S$3.0 million or 16.6% as purchases were higher in FY2011, mainly due to the decision to built up stock holding in the first half of 2011 following the natural disaster that occurred in Japan which affected one of our supply sources. This also led to the increase in trade and other payables from S$10.7 million at 31 December 2010 to S$11.0 million as at 31 December 2011.

Other current assets
Other current assets of S$2.5 million, which consist mainly of advances to suppliers and prepayments, were relatively the same at compared to balance as at 31 December 2010.

Financial assets and financial liabilities held for trading
Financial assets held for trading, which consist of listed equity security and forward foreign exchange contracts, decreased by S$95,000 or 66.8% due to a decline in the market price of the listed security and fair value of foreign exchange contracts. Similarly, the decline in financial liabilities held for trading of S$3,000 or 27.1% arose from favourable changes in fair values of certain other forward foreign exchange contracts.

Net asset value
Net asset value per share increased from 27.07 cents as at 31 December 2010 to 29.21 cents as at 31 December 2011 primarily due to net profit contribution for the current year offset by unfavourable currency translation reserve of S$0.7 million resulted mainly from the weakening of Thai Baht, Malaysia Ringgit and British Sterling Pound.

8(c) CASH FLOW

Cash flow was fairly strong in FY2011 with positive operating cash flow generated amounting to S$3.4 million. This was use for the payment of dividend of S$1.3 million and partially to fund the purchase of the factory and other plant and equipment. The factory was financed by a long term loan of S$5.0 million and the balance from internal funds.

As compared to 31 December 2010, cash and cash equivalents increased marginally by S$0.8 million to S$7.6 million as at 31 December 2011.

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

In our earnings announcement for the first 6 months period ended 30 June 2011, we reported that the on-going concerns with the global economy clouded by the sluggish US labour market, the US and Euro debt issues will diminish the growth outlook for H2 2011. The actual results for H2 2011 are thus in line with our prospect statement.

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

PROSPECTS

Our key growth strategy for 2012 and beyond focuses on the following areas: -

Leveraging on our Strong Asian Network

Our geographic network is now firmly entrenched in Asia. We now have established presence in 11 countries around the world, out of which 8 are in Asia.

In future years the global economy will be increasingly Asia-centric. Asia's growth will outpace that of the western countries. While Asia will present tremendous opportunities for us given our strong Asia presence, we envisage stiff competition as major chemical distributors turn their focus away from Europe into Asia. It is therefore critical that we channel more resources to Asia, build a stronger sales team and step up our marketing activities quickly to build a stronger footprint in Asia.

While we increase our focus in capitalizing on our Asian network, we will also explore opportunities in other emerging markets outside Asia. We will do this by increasing our efforts in exporting products to markets outside our current network. When sufficient knowledge of those markets has been acquired, we can then consider expanding our footprint further into these markets for our next phase of growth.

Expanding our Custom-blending Activity

Our custom-blending activity has seen healthy momentum of growth in recent years, culminating in record profit level in 2011. Coupled with a growing outsourcing trend, it is timely for us to expand this part of our business. On 3 January 2012, we announced the completion of the purchase of a factory/warehouse unit adjacent to our current premise. A new production facility will be added which will increase our existing output. We are in the process of installing the production facility and target to start production in the new facility in the second quarter of 2012. The main objectives of the expansion are to (i) increase our production output to meet customers' demand, (ii) improve our productivity through better asset utilisation, increased process efficiency and automation and (iii) sharpen our competitive edge. This is also a business that is expected to generate better gross profit margin and cashflow for the Group in the long run. More importantly, this will further enhance our position as an integrated chemical solution provider, bringing to our customers higher value-added services.

2012 Outlook

The problems in Europe remain unresolved going into 2012. The outlook of the global economy continues to be uncertain. Given that our business has a close correlation to economic activities, any further deterioration in the external environment will have an impact on our business prospects for 2012. However our business model remains robust. The diversity of our business model increases our resilience and our ability to withstand external adversity. Our Asian presence and expansion of our custom-blending activity will be key growth pillars for us in the years ahead. Thus while the immediate outlook remains uncertain, we are confident of our longer term prospects.

Barring any unforeseen circumstances, we envisage that our Group will continue to be profitable in 2012.

RISK FACTORS

We believe the imminent risks to our performance in the financial year ending 31 December 2012 ("FY2012") are as follows:

Uncertainty in the global economy

The austerity measures implemented following the debt crisis in Europe may hinder its economic recovery. The fallout from the Europe debt crisis and its repercussions on the global economy and our business thereafter remain uncertain.

Sluggish economic recovery in the United States of America and slower growth in China continue to be of concern.

Volatility in energy prices

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

Currency risk

We operate internationally and therefore are exposed to foreign currency risks arising from various currency exposures. The currency volatility which was evident in 2011 may persist in 2012 and this will pose a challenge to our currency risk management. While we will continue to hedge our exposure, there is no perfect hedge against currency risk. Thus any adverse changes in foreign currency may have an impact on our profitability in FY2012.

Interest rate risk

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

Credit risk

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

Country risk

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

11. Dividend

(a) Current financial year reported on

Any dividend declared (recommended) for the current financial year ended 31 December 2011? Yes

The directors are pleased to recommend a final tax exempt dividend of 1.0 cents per share in respect of the financial year ended 31 December 2011 for approval by the shareholders at the next Annual General Meeting to be convened.

Name of dividend	Final (recommended)	Interim (declared)
Dividend type	Cash	Cash
Dividend amount per share (in cent)	1.0	0.3
Tax rate	Exempt	Exempt
Date payable	25 May 2012	30 September 2011
Book closure date	10 May 2012	16 September 2011

(b) Corresponding period of the immediately preceding financial year

Any dividend declared for the immediately preceding financial year ended 31 December 2010? Yes

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

(c) Date payable

The final tax exempt dividend of 1.0 cents per share in respect of the financial year ended 31 December 2011, subject to approval by the shareholders at the next Annual General Meeting to be convened, will be paid on 25 May 2012.

(d) Books closure date

The Share Transfer Books and Register of Members of the Company will be closed on 10 May 2012.

12. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited financial statements, with comparatives information for the immediately preceding year.

Primary reporting format – Geographical segments by location of assets

	Singapore	Malaysia	Indonesia	United Kingdom	Others	Unallocated	Group
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
For the financial year ended 31 December 2011							
Sales							
Total sales by segment	59,316	16,951	10,605	26,131	17,352	-	130,355
Inter-segment sales	(15,504)	(373)	(14)	(3,861)	(3,739)	-	(23,491)
	43,812	16,578	10,591	22,270	13,613	-	106,864
Segment result	2,304	1,671	522	1,180	(164)	-	5,513
Interest income - bank						34	34
Finance costs						(285)	(285)
Share of profit of assciated companies						1,026	1,026
Profit before income tax						775	6,288
Income tax expense						(1,203)	(1,203)
Net profit	2,304	1,671	522	1,180	(164)	(428)	5,085
Other segment items							
Capital expenditure	5,945	121	70	-	135	-	6,271
Depreciation	406	97	75	22	52	-	652

	Singapore	Malaysia	Indonesia	United Kingdom	Others	Unallocated	Group
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Segment assets	31,400	8,784	5,870	7,288	8,568	-	61,910
Associated companies						4,567	4,567
Fixed deposits						1,018	1,018
Consolidated total assets	31,400	8,784	5,870	7,288	8,568	5,585	67,495
Segment liabilities	(4,778)	(544)	(427)	(4,245)	(1,012)	-	(11,006)
Borrowings						(15,345)	(15,345)
Current income tax liabilities						(437)	(437)
Deferred income tax liabilities						(41)	(41)
Consolidated total liabilities	(4,778)	(544)	(427)	(4,245)	(1,012)	(15,823)	(26,829)

	Singapore	Malaysia	Indonesia	United Kingdom	Others	Unallocated	Group
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
For the financial year ended 31 December 2010							
Sales							
Total sales by segment	55,102	16,773	9,443	19,868	15,814		117,000
Inter-segment sales	(15,583)	(264)	(48)	(3,195)	(2,927)		(22,017)
	39,519	16,509	9,395	16,673	12,887	-	94,983
Segment result	1,549	2,140	651	774	65	-	5,179
Interest income - bank						30	30
Finance costs						(149)	(149)
Share of profit of assciated companies						1,099	1,099
Profit before income tax						980	6,159
Income tax expense						(1,336)	(1,336)
Net profit	1,549	2,140	651	774	65	(356)	4,823
Other segment items							
Capital expenditure	389	223	87	10	80	-	789
Depreciation	370	97	87	37	42	-	633

	Singapore	Malaysia	Indonesia	United Kingdom	Others	Unallocated	Group
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Segment assets	25,686	8,940	3,955	5,629	9,305	-	53,515
Associated companies						4,216	4,216
Fixed deposits						990	990
Consolidated total assets	25,686	8,940	3,955	5,629	9,305	5,206	58,721
Segment liabilities	(4,731)	(431)	(303)	(3,466)	(1,794)	-	(10,725)
Borrowings						(9,742)	(9,742)
Current income tax liabilities						(560)	(560)
Deferred income tax liabilities						(45)	(45)
Consolidated total liabilities	(4,731)	(431)	(303)	(3,466)	(1,794)	(10,347)	(21,072)

12. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited financial statements, with comparatives information for the immediately preceding year (cont'd).

Secondary reporting format – Business segments

	Distribution	Manufacturing	Unallocated	Group
	S$'000	S$'000	S$'000	S$'000
For the financial year ended 31 December 2011				
Sales				
Total sales by segment	126,376	3,979	-	130,355
Inter-segment sales	(23,176)	(315)	-	(23,491)
	103,200	3,664	-	106,864
Segment result	4,794	719	-	5,513
Interest income - bank			34	34
Finance costs			(285)	(285)
Share of profit of assciated companies			1,026	1,026
Profit before income tax			775	6,288
Income tax expense			(1,203)	(1,203)
Net profit	4,794	719	(428)	5,085
Other segment items				
Capital expenditure	420	5,851	-	6,271
Depreciation	534	118	-	652

	Distribution	Manufacturing	Unallocated	Group
	S$'000	S$'000	S$'000	S$'000
Segment assets	54,096	7,814	-	61,910
Associated companies			4,567	4,567
Fixed deposits			1,018	1,018
Consolidated total assets	54,096	7,814	5,585	67,495
Segment liabilities	(10,705)	(301)	-	(11,006)
Borrowings			(15,345)	(15,345)
Current income tax liabilities			(437)	(437)
Deferred income tax liabilities			(41)	(41)
Consolidated total liabilities	(10,705)	(301)	(15,823)	(26,829)

	Distribution S$'000	Manufacturing S$'000	Unallocated S$'000	Group S$'000
For the financial year ended 31 December 2010				
Sales				
Total sales by segment	113,582	3,418	-	117,000
Inter-segment sales	(21,715)	(302)	-	(22,017)
	91,867	3,116	-	94,983
Segment result	4,764	415	-	5,179
Interest income - bank			30	30
Finance costs			(149)	(149)
Share of profit of assciated companies			1,099	1,099
Profit before income tax			980	6,159
Income tax expense			(1,336)	(1,336)
Net profit	4,764	415	(356)	4,823
Other segment items				
Capital expenditure	680	109	-	789
Depreciation	527	106	-	633

	Distribution S$'000	Manufacturing S$'000	Unallocated S$'000	Group S$'000
Segment assets	51,998	1,517	-	53,515
Associated companies			4,216	4,216
Fixed deposits			990	990
Consolidated total assets	51,998	1,517	5,206	58,721
Segment liabilities	(10,534)	(191)	-	(10,725)
Borrowings			(9,742)	(9,742)
Current income tax liabilities			(560)	(560)
Deferred income tax liabilities			(45)	(45)
Consolidated total liabilities	(10,534)	(191)	(10,347)	(21,072)

13. In view of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.

Please refer to section 8(a) Profitability Analysis.

14. A breakdown of sales

	Full year ended 31 December 2011	Full year ended 31 December 2010	Variance	
	S$'000	S$'000	Increase/ (decrease)	%
Sales				
(a) Sales for the first half ("H1")	**57,258**	45,196	12,062	26.7%
(b) Sales for the second half ("H2')	**49,606**	49,787	(181)	(0.4%)
Increase/(decrease) H2 from H1	***(7,652)***	*4,591*		
Increase/(decrease) H2 from H1 (in %)	***(13.4%)***	*10.2%*		
Profit after tax				
(c) Profit after tax and before attributing to non-controlling interests for H1	**3,043**	2,818	225	8.0%
(d) Profit after tax and before attributing to non-controlling interests for H2	**2,042**	2,004	38	1.9%
Increase/(decrease) H2 from H1	***(1,001)***	*(814)*		
Increase/(decrease) H2 from H1 (in %)	***(32.9%)***	*(28.9%)*		

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

Total annual dividend paid	**Full year ended 31 December 2011 S$**	Full year ended 31 December 2010 S$
Ordinary	**1,333,000**	1,999,500

16. Related Parties and Interested Person Transactions

Name of interested person	Aggregate value of all interested person transactions during the financial year ended 31 December 2011 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 2011 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
Legal fees for services rendered by Lee Bon Leong and Co., an associate of Mr Lee Bon Leong, a director of the Company	(Note 2)	Nil

Note 1 : The Group entered into interested person transactions amounting in aggregate to S$164,033 and each transaction was below S$100,000 which fell outside the scope of Rule 920.

Note 2 : The Group entered into interested person transactions amounting in aggregate to S$8,100 and each transaction was below S$100,000 which fell outside the scope of Rule 920

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

17. Disclosure of person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the issuer pursuant to Rule 704(10).

Name	Age	Family relationship with any director and/or substantial shareholder	Current position and duties, and the year the position was first held	Details of changes in duties and position held, if any, during the year
Liau Bin Bin	45	Spouse of Mr Chew Choon Tee, the Executive Chairman and Managing Director and substantial shareholder of the Company	Managing Director of CN Chemicals Sdn Bhd	Nil

The following directors and substantial shareholders have confirmed that as at 31 December 2011, they do not have any relatives who are holding a managerial position in the Company or any of its principal subsidiaries:-

Tan Bock Chia	Director and substantial shareholder
Chan Kam Loon	Director
Lee Bon Leong	Director
Patrick Pui Hang Yeung	Director
Lim Yee Hoe	Substantial shareholder

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

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

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