



MEGACHEM LIMITED

Un-audited Financial Statements and
Dividend Announcement

For The Half Year Ended
30 June 2013

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UNAUDITED RESULTS FOR THE HALF-YEAR ENDED 30 JUNE 2013

The directors of Megachem Limited are pleased to advise the following unaudited results of the Group for the half year ended 30 June 2013.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2013

	For the half year	For the half year	Variance	
	ended 30 June 2013	ended 30 June 2012	Favourable/(Unfavourable)	
	S\$	S\$	S\$'000	%
Sales	51,861,049	54,040,817	(2,180)	(4.0%)
Cost of sales	<u>(41,417,510)</u>	<u>(42,897,969)</u>	1,480	3.5%
Gross profit	10,443,539	11,142,848	(699)	(6.3%)
Other operating income	60,553	228,459	(168)	(73.5%)
Distribution costs	(5,687,272)	(5,460,055)	(227)	(4.2%)
Administrative expenses	(2,239,817)	(2,142,631)	(97)	(4.5%)
Other operating expenses	(1,406,902)	(1,721,065)	314	18.3%
Finance costs	(173,520)	(163,846)	(10)	(5.9%)
Share of profit of associated companies	1,064,135	691,690	372	53.8%
Profit before income tax	2,060,716	2,575,400	(515)	(20.0%)
Income tax expense	<u>(544,194)</u>	<u>(518,833)</u>	(25)	(4.9%)
Net profit	1,516,522	2,056,567	(540)	(26.3%)
Other comprehensive income:				
Exchange differences on translating foreign operations, net of tax	(45,568)	(475,626)	430	90.4%
Total comprehensive income	1,470,954	1,580,941	(110)	(7.0%)
Net profit attributable to:				
Equity holders of the Company	1,345,008	1,903,452	(558)	(29.3%)
Non-controlling interests	171,514	153,115	18	12.0%
Net profit	1,516,522	2,056,567	(540)	(26.3%)
Total comprehensive income attributable to:				
Equity holders of the Company	1,313,831	1,436,955	(123)	(8.6%)
Non-controlling interests	157,123	143,986	13	9.1%
Total comprehensive income	1,470,954	1,580,941	(110)	(7.0%)
Earnings per share of profit attributable to equity holders of the Company during the financial period				
- basic and diluted	1.01 cents	1.43 cents		

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

	For the half year ended 30 June 2013 S\$	For the half year ended 30 June 2012 S\$
<u>Other operating income</u>		
Bad debt recovered	2,277	175,554
Change in fair value of financial assets held for trading	15,299	2,890
Gain on disposal of property, plant and equipment	4,491	9,280
Interest income from banks	19,569	24,548
Management fees	10,053	12,271
Rental income	8,864	3,916
	60,553	228,459
Change in fair value of financial assets held for trading		
- forward foreign exchange contracts	15,299	2,890
Change in fair value of financial assets held for trading		
- listed equity security	-	(5,500)
Change in fair value of financial liabilities held for trading		
- forward foreign exchange contracts	(49,438)	(47,199)
Depreciation and amortisation	(738,925)	(465,568)
Interest on borrowings	(173,520)	(163,846)
Impairment of trade receivables	(79,191)	(79,889)
Net foreign exchange loss	(41,944)	(320,687)
Write off of inventory	(163,912)	(77,532)
Adjustment for (under)/over provision for tax in respect of prior financial years	(56,794)	22,112

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

	<u>Group</u>		<u>Company</u>	
	30 June 2013 S\$	31 December 2012 S\$	30 June 2013 S\$	31 December 2012 S\$
ASSETS				
Current assets				
Cash and bank balances	6,669,401	8,055,895	1,471,633	2,178,814
Trade and other receivables	25,331,068	24,396,213	19,332,548	15,019,843
Inventories	19,983,877	19,795,568	9,982,603	10,060,136
Financial assets held for trading	46,299	48,745	31,000	31,000
Other current assets	3,245,949	1,903,889	545,676	380,668
	<u>55,276,594</u>	<u>54,200,310</u>	<u>31,363,460</u>	<u>27,670,461</u>
Non-current assets				
Transferable club memberships	31,523	31,889	4,001	4,001
Investment in associated companies	6,502,628	5,407,581	99,949	99,949
Investments in subsidiaries	-	-	4,984,251	4,984,251
Investment property	115,113	118,517	-	-
Property, plant and equipment	12,144,852	12,495,571	1,934,314	1,910,475
	<u>18,794,116</u>	<u>18,053,558</u>	<u>7,022,515</u>	<u>6,998,676</u>
Total assets	<u>74,070,710</u>	<u>72,253,868</u>	<u>38,385,975</u>	<u>34,669,137</u>
LIABILITIES				
Current liabilities				
Trade and other payables	12,311,368	14,146,009	6,404,372	5,344,228
Current income tax liabilities	358,522	324,297	148,729	145,900
Borrowings	15,727,177	11,957,378	11,839,625	8,021,804
Financial liabilities held for trading	49,438	17,463	14,637	10,368
	<u>28,446,505</u>	<u>26,445,147</u>	<u>18,407,363</u>	<u>13,522,300</u>
Non-current liabilities				
Deferred tax liabilities	-	-	-	-
Borrowings	3,750,000	4,050,000	-	-
	<u>3,750,000</u>	<u>4,050,000</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>32,196,505</u>	<u>30,495,147</u>	<u>18,407,363</u>	<u>13,522,300</u>
NET ASSETS	<u>41,874,205</u>	<u>41,758,721</u>	<u>19,978,612</u>	<u>21,146,837</u>
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	(2,418,533)	(2,387,356)	-	-
Retained earnings	26,362,694	26,350,686	4,086,584	5,254,809
	<u>39,836,189</u>	<u>39,855,358</u>	<u>19,978,612</u>	<u>21,146,837</u>
Non-controlling interests	2,038,016	1,903,363	-	-
Total equity	<u>41,874,205</u>	<u>41,758,721</u>	<u>19,978,612</u>	<u>21,146,837</u>

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

Amount repayable in one year or less, or on demand

As at 30 June 2013		As at 31 December 2012	
Secured	Unsecured	Secured	Unsecured
S\$1,335,109	S\$14,392,068	S\$1,856,885	S\$10,100,493

Amount repayable after one year

As at 30 June 2013		As at 31 December 2012	
Secured	Unsecured	Secured	Unsecured
S\$3,750,000	-	S\$4,050,000	-

Details of collateral

The secured borrowings were collateralized on:

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

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 30 JUNE 2013

	For the half year ended 30 June 2013 S\$	For the half year ended 30 June 2012 S\$
Cash flows from operating activities		
Net profit	1,516,522	2,056,567
Adjustments for:		
Change in fair value of financial assets held for trading	-	5,500
Depreciation charge	738,925	465,568
Gain on disposal of property, plant and equipment	(4,491)	(9,280)
Share of profit of associated companies	(1,064,135)	(691,690)
Income tax expense	544,194	518,833
Interest income	(19,569)	(24,548)
Finance costs	173,520	163,846
Operating cash flow before working capital changes	<u>1,884,966</u>	<u>2,484,796</u>
Change in operating assets and liabilities		
Trade and other receivables	(2,293,366)	(3,181,580)
Inventories	(188,309)	675,124
Financial assets held for trading	2,446	(1,031)
Trade and other payables	(1,271,900)	1,314,975
Financial liabilities held for trading	31,975	38,861
Foreign exchange adjustment differences	(206,126)	(174,898)
Cash (used in)/generated from operations	<u>(2,040,314)</u>	<u>1,156,247</u>
Income tax paid	(464,969)	(823,879)
Interest received	19,569	24,548
Net cash (used in)/from operating activities	<u>(2,485,714)</u>	<u>356,916</u>
Cash flows from investing activities		
Dividend received	72,753	85,925
Partial payment for purchase of property, plant and equipment	-	(58,799)
Purchase of property, plant and equipment	(962,988)	(2,261,769)
Proceeds from sale of property, plant and equipment	7,413	20,629
Net cash used in investing activities	<u>(882,822)</u>	<u>(2,214,014)</u>
Cash flows from financing activities		
Dividends paid	(1,333,000)	(1,333,000)
Dividends paid by subsidiary to non-controlling shareholders	(22,470)	(23,370)
Proceeds from bills payables	1,705,020	1,773,715
Repayment of long term bank loan	(300,000)	(50,000)
Proceeds from short term bank loans	1,600,000	1,598,410
Repayment of finance lease liability	-	(6,219)
Interest paid	(168,351)	(163,311)
Net cash from financing activities	<u>1,481,199</u>	<u>1,796,225</u>
Net decrease in cash and cash equivalents held	<u>(1,887,337)</u>	<u>(60,873)</u>
Cash and cash equivalents at beginning of the financial period	8,055,895	7,612,909
Effects of exchange rate changes on cash and cash equivalents	4,957	(113,490)
Cash and cash equivalents at end of the financial period	<u>6,173,515</u>	<u>7,438,546</u>
Cash and cash equivalents comprised the followings:		
Cash and bank balances	6,669,401	7,438,546
Less: bank overdraft	(495,886)	-
	<u>6,173,515</u>	<u>7,438,546</u>

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

STATEMENTS OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2013

	Attributable to equity holders of the Company					
	Total equity S\$	Parent Sub-total S\$	Share capital S\$	Other reserves S\$	Retained earnings S\$	Non-controlling interests S\$
<u>The Group</u>						
Balance at 1 January 2013	41,758,721	39,855,358	15,892,028	(2,387,356)	26,350,686	1,903,363
Total comprehensive income for the financial period	1,470,954	1,313,831	-	(31,177)	1,345,008	157,123
Final dividend relating to FY2012 paid	(1,355,470)	(1,333,000)	-	-	(1,333,000)	(22,470)
Balance at 30 June 2013	41,874,205	39,836,189	15,892,028	(2,418,533)	26,362,694	2,038,016
Balance at 1 January 2012	40,665,797	38,934,436	15,892,028	(1,872,530)	24,914,938	1,731,361
Total comprehensive income for the financial period	1,580,941	1,436,955	-	(466,497)	1,903,452	143,986
Final dividend relating to FY2011 paid	(1,356,370)	(1,333,000)	-	-	(1,333,000)	(23,370)
Balance at 30 June 2012	40,890,368	39,038,391	15,892,028	(2,339,027)	25,485,390	1,851,977
 <u>The Company</u>						
Balance at 1 January 2013	21,146,837	15,892,028	5,254,809			
Total comprehensive income for the financial period	164,775	-	164,775			
Final dividend relating to FY2012 paid	(1,333,000)	-	(1,333,000)			
Balance at 30 June 2013	19,978,612	15,892,028	4,086,584			
Balance at 1 January 2012	21,209,766	15,892,028	5,317,738			
Total comprehensive income for the financial period	838,966	-	838,966			
Final dividend relating to FY2011 paid	(1,333,000)	-	(1,333,000)			
Balance at 30 June 2012	20,715,732	15,892,028	4,823,704			

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

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

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

There were no unissued shares of the Company under option and treasury shares as at the end of 30 June 2013 and 31 December 2012.

There were no treasury shares of the Company as at the end of 30 June 2013 and 30 June 2012.

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

The total number of issued ordinary shares, excluding treasury shares, as at the end of 30 June 2013 and 31 December 2012 were 133,300,000.

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

The figures have not been audited or reviewed.

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

Not applicable.

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

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as those of the audited financial statements for the year ended 31 December 2012.

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 2013, 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.

	For the half year ended 30 June 2013	For the half year ended 30 June 2012
Earnings per ordinary share (in cents)		
a) Based on weighted average number of ordinary shares in issue	1.01	1.43
b) On a fully diluted basis	1.01	1.43
Weighted average number of ordinary shares in issue for earnings per share	133,300,000	133,300,000

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

	30 June 2013	<u>Group</u> 31 December 2012	30 June 2013	<u>Company</u> 31 December 2012
Net asset value per ordinary share based on issued share capital (cents)	29.88	29.90	14.99	15.86
No of ordinary shares used in calculation	133,300,000	133,300,000	133,300,000	133,300,000

8. REVIEW OF PERFORMANCE

8(a) PROFITABILITY ANALYSIS

Profitability Highlights	H1 2013	H2 2012	H1 2012	Variance H1 2013 vs H2 2012		Variance H1 2013 vs H1 2012	
				Fav/(Unfav)	%	Fav/(Unfav)	%
Sales (S\$'mil)	51.9	52.2	54.0	(0.4)	(0.7%)	(2.2)	(4.0%)
Gross profit (S\$'mil)	10.4	10.7	11.1	(0.3)	(2.4%)	(0.7)	(6.3%)
Gross profit margin	20.1%	20.5%	20.6%	(0.4% pts)	na	(0.5% pts)	na
Total expenses and finance costs (S\$'mil)	9.5	9.5	9.5	-	0.2%	-	(0.2%)
Other operating income (S\$'000)	61	185	228	(125)	(67.3%)	(168)	(73.5%)
Share of profit of associated companies (S\$'000)	1,064	542	692	522	96.1%	372	53.8%
Net profit before tax (S\$'mil)	2.1	1.9	2.6	0.2	8.5%	(0.5)	(20.0%)
Net profit after tax (S\$'mil)	1.5	1.3	2.1	0.2	13.7%	(0.5)	(26.3%)
Net profit after tax margin	2.9%	2.6%	3.8%	0.3% pts	na	(0.9% pts)	na
EBITDA (S\$'mil)	3.0	2.7	3.2	0.3	9.5%	(0.2)	(7.1%)
Earnings per share attributable to the equity holders of the Company (cents)	1.01	0.95	1.43	0.06	6.3%	(0.42)	(29.4%)
Annualised return on equity (ROE)	6.8%	6.3%	9.8%	0.5% pts	na	(3.0% pts)	na

na : not applicable

8(a)(i) Sales

Geographic Segment Sales Analysis

	For the half year ended 30 June 2013		For the half year ended 31 December 2012		Variance S\$'000	Fav/(Unfav) %
	S\$'000	%	S\$'000	%		
ASEAN	36,847	71.1	35,125	67.3	1,722	4.9
North Asia	4,362	8.4	5,881	11.3	(1,519)	(25.8)
America	3,239	6.2	3,769	7.2	(530)	(14.1)
Europe	2,752	5.3	3,350	6.4	(598)	(17.9)
South Asia	1,982	3.8	1,926	3.7	56	2.9
Middle East	1,427	2.8	985	1.9	442	44.9
Australia	1,160	2.2	1,187	2.2	(27)	(2.3)
Africa	92	0.2	-	-	92	100.0
Total	51,861	100.0	52,223	100.0	(362)	(0.7)

	For the half year ended 30 June 2013		For the half year ended 30 June 2012		Variance S\$'000	Fav/(Unfav) %
	S\$'000	%	S\$'000	%		
ASEAN	36,847	71.1	35,992	66.6	855	2.4
North Asia	4,362	8.4	5,539	10.2	(1,177)	(21.2)
America	3,239	6.2	3,570	6.6	(331)	(9.3)
Europe	2,752	5.3	3,059	5.7	(307)	(10.0)
South Asia	1,982	3.8	2,467	4.6	(485)	(19.7)
Middle East	1,427	2.8	1,810	3.3	(383)	(21.2)
Australia	1,160	2.2	1,556	2.9	(396)	(25.4)
Africa	92	0.2	48	0.1	44	91.7
Total	51,861	100.0	54,041	100.0	(2,180)	(4.0)

H1 2013 vs H2 2012

Overall sales for first half of 2013 (~~H1 2013~~) were almost flat compared to the second half of 2012 (~~H2 2012~~). Other than our ASEAN and Middle Eastern markets which grew by 4.9% and 44.9% respectively, most of the other markets recorded a fall in sales. Lower sales to China as well as to other markets in North Asia led to the decline in sales in our North Asian markets by S\$1.5 million or 25.8%. Sales in America and Europe contracted more moderately by S\$0.5 million and S\$0.6 million or 14.1% and 17.9% respectively primarily due to concerns over the political situation in one of our main markets in South America while the Euro zone remained largely in recession.

H1 2013 vs H1 2012

Compared to first half of 2012 (~~H1 2012~~), sales decreased by S\$2.2 million or 4.0%. The decline was evident across all the regions except our core ASEAN market, which grew marginally by 2.4% due to better performance from our markets such as Indonesia and Vietnam.

Business Activity Segment Sales Analysis

	H1 2013	H2 2012	H1 2012	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$000	S\$000	H1 2013 vs H2 2012	H1 2013 vs H1 2012	S\$000	%
Distribution activity	50,222	50,495	52,546	(273)	(0.5)	(2,324)	(4.4)
Manufacturing activity	1,639	1,728	1,495	(89)	(5.2)	144	9.7
Total Sales	51,861	52,223	54,041	(362)	(0.7)	(2,180)	(4.0)

H1 2013 vs H2 2012

The contract manufacturing activities for H1 2013 decreased marginally by S\$89,000 or 5.2% in line with the general market conditions for the period.

H1 2013 vs H1 2012

Contract manufacturing activities were disrupted in the H1 2012 when the new production facility was being set up. The activities and hence, sales revenue for H1 2013 post-expansion were therefore higher but have yet to reach its potential.

8(a)(ii) Gross profit

H1 2013 vs H2 2012

Gross profit margin for H1 2013 dipped marginally by 0.4%-points to 20.1% primarily due to higher manufacturing costs incurred such as depreciation of plant and equipment for the new facilities. This factor had the effect of reducing the gross profit margin by 0.9%-points.

On the other hand, the shift towards higher sales contribution from ASEAN market helped to narrow the fall in gross profit margin. As a result of the lower gross profit margin, gross profit decreased 2.4% or S\$0.3 million.

H1 2013 vs H1 2012

For the same reason as noted above, gross profit margin was slightly lower by 0.5%-points year-on-year. Coupled with a decrease in distribution segment sales of S\$2.3 million, overall gross profit fell by S\$0.7 million or 6.3%.

8(a)(iii) Other operating income

H1 2013 vs H2 2012

	H1 2013	H2 2012	Variance Fav/(Unfav)	
	S\$'000	S\$'000	H1 2013 vs H2 2012 S\$'000	%
Grant income	-	61	(61)	(100.0)
Gain on disposal of property, plant and equipment	4	61	(57)	(92.7)

Other operating income decreased by S\$125,000 or 67.3% compared to H2 2012 largely due to higher gain from disposal of property, plant and equipment and grant income received which did not recur in the current period.

H1 2013 vs H1 2012

	H1 2013	H1 2012	Variance Fav/(Unfav)	
	S\$'000	S\$'000	H1 2013 vs H1 2012 S\$'000	%
Bad debt recovered	2	176	(173)	(98.7)
Change in fair value of financial assets held for trading	15	3	12	429.4

In H1 2012, higher bad debt was recovered from China and Malaysia customers and this accounted for the main reason for the decrease in other operating income by S\$168,000 or 73.5%.

8(a)(iv) Operating expenses

H1 2013 vs H2 2012

Total operating expenses (excluding finance costs) for H1 2013 amounted to S\$9.3 million. Although overall expenditure remained unchanged as compared to H2 2012, significant variances were noted for certain key cost elements as follows:

	H1 2013	H2 2012	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Depreciation of property, plant, equipment	459	376	(82)	(21.9)
Employee remuneration and related expenses	5,418	4,954	(464)	(9.4)
Impairment of trade receivables	79	35	(44)	(124.1)
Maintenance of property, plant and equipment	224	281	57	20.2
Net foreign exchange loss	42	353	311	88.1
Professional fees	235	291	55	19.1
Travelling and transport	407	491	84	17.1
Rental	870	837	(33)	(4.0)

Employee remuneration and related expenses, depreciation of property, plant and equipment and impairment of trade receivables were the three main cost components that drove overall operating expenses upward in H1 2013.

Annual salary increment and additional headcount in H1 2013 led to an increase of staff costs by S\$0.5 million or 9.4%. Depreciation of property, plant and equipment commenced with the completion of office premise renovation at 11 Tuas Link 1 end of last year.

Higher impairment of trade receivables were made for customers in Malaysia, Middle East and India in H1 2013 and rental expense increased minimally in line with increase in inventory level.

On the other hand, foreign exchange recorded a smaller net loss in H1 2013. The sharp depreciation of Indian Rupees in the second quarter of 2013 was the main cause of foreign exchange loss incurred although the strengthening of the United State Dollars (USD) helped to offset it substantially. In H1 2012, profitability was double hit by depreciating USD and Indian Rupees, resulting in a bigger foreign exchange loss.

Lower maintenance and professional expenses were incurred in the current period as part of such incurred in the previous year were in relation to the construction of the new manufacturing facilities and office premise renovation work.

Travelling and transport were traditionally lower in the first half of the year as compared to the second half.

H1 2013 vs H1 2012

Vis-à-vis H1 2012, total operating expenses were also flat and similar variances and reasons were noted for most the key costs illustrated below. Rental expenses on the other hand were marginally lower in H1 2013 than its comparative period mainly due to lower inventory holding.

	H1 2013 S\$'000	H1 2012 S\$'000	Variance Fav/(Unfav)	
			S\$'000	%
Depreciation of property, plant, equipment	459	389	(70)	(18.0)
Employee remuneration and related expenses	5,418	5,110	(309)	(5.7)
Net foreign exchange loss	42	321	279	86.9
Professional fees	235	333	98	29.4
Rental	870	883	13	1.5

8(a)(v) Finance costs

H1 2013 vs H2 2012 and H1 2013 vs H1 2012

Finance costs comprised the following:-

	H1 2013 S\$'000	H2 2012 S\$'000	H1 2012 S\$'000	Variance Fav/(Unfav) H1 2013 vs H2 2012		Variance Fav/(Unfav) H1 2013 vs H1 2012	
				S\$'000	%	S\$'000	%
Bills payable	92	113	93	21	18.8	2	1.8
Bank loans	82	87	71	6	6.6	(11)	(16.1)
Total	174	200	164	27	13.4	(10)	(5.9)

Finance costs incurred were in line with average borrowing levels in each of the three comparison periods with the highest being in H2 2012 during which majority of the plant expansion work was completed and lowest in H1 2012. Therefore, finance costs for H1 2013 were lower by S\$27,000 or 13.4% as compared to H2 2012 but higher than H1 2012 by S\$10,000 or 5.9%.

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

H1 2013 vs H2 2012 and H1 2013 vs H1 2012

On the back of Thailand's fiscal policy to increase spending on improving infrastructure and stimulate domestic consumption, the performance of our Thai associated companies achieved record high profits in H1 2013. Our share of profits for H1 2013 at S\$1.1 million almost doubled from S\$0.5 million achieved in H2 2012 and grew strongly by S\$0.4 million or 53.8% as compared to H1 2012.

8(a)(vii) Profit before income tax

H1 2013 vs H2 2012

In summary, profit before income tax for H1 2013 increased moderately by S\$0.2 million or 8.5% compared to H2 2012 as a result of better than expected results from associated companies and smaller foreign exchange loss incurred, which helped to offset higher operating expenses such as staff costs and depreciation charges.

H1 2013 vs H1 2012

However, as compared against H1 2012, net profit before tax was significantly lower by S\$0.5 million or 20.0%. The reason for the difference in net profit before tax from the above comparison was primarily due to lower sales and gross profit in H1 2013.

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

Consistent with the above, profit for the half year attributable to the equity holders of the Company increased marginally by S\$80,000 or 6.4% as compared to H2 2012 while it declined by S\$0.6 million or 29.3% vis-à-vis H1 2012.

8(b) BALANCE SHEET ANALYSIS

Balance Sheet Highlights	← Half year ended →			Variance	Variance
	30 June 2013	31 December 2012	30 June 2012	30 June 2013 vs 31 December 2012	30 June 2013 vs 30 June 2012
				Fav/(Unfav)	Fav/(Unfav)
Cash (S\$mil)	6.7	8.1	7.4	(1.4)	(0.8)
Borrowings (S\$mil)	19.5	16.0	18.7	(3.5)	(0.8)
Current ratio	1.94	2.05	2.06	(0.11)	(0.12)
Gearing ratio	0.49	0.40	0.48	(0.09)	(0.01)
Net assets per share attributable to equity holders of the Company (cents)	29.88	29.90	29.29	(0.02)	0.59
Inventory turnover (days)	95	95	95	-	-
Trade receivables turnover (days)	87	86	85	(1)	(2)

Property, plant and equipment

The decrease in property, plant and equipment of S\$0.3 million or 2.8% from 31 December 2012 to S\$12.1 million was primarily due to lower depreciation charge for the period.

Associated companies

The increase in carrying value of the investment in our associated company of S\$1.1 million or 20.3% as compared to 31 December 2012 corresponded to the higher profit contribution in H1 2013.

Trade receivables

Third party trade receivables increased by S\$1.6 million or 7.0% from S\$23.5 million as at 31 December 2012 to S\$25.1 million as at 30 June 2013. Turnover days for H1 2013 at 87 days was relatively flat as compared to 86 days in H2 2012 and 85 days in H1 2012.

Inventory and trade and other payables

Inventory as at 30 June 2013 of S\$20.0 million increased marginally by S\$0.2 million or 1.0% as compared to 31 December 2012 as purchases for H1 2013 were prudent in view of the weaker demand. Turnover day for H1 2013 remain relatively unchanged at 95 days as compared to 95 days for both H2 2012 and H1 2012.

Trade and other payables decreased by S\$1.8 million or 13.0% from S\$14.1 million as at 31 December 2012 to S\$12.3 million as at 30 June 2013 was mainly due to payments made for trade payables as well as remaining payables for renovation work completed.

Other current assets

Other current assets increased by S\$1.3 million or 70.5% compared to the value as at 31 December 2012 due to timing difference in advance payments made to suppliers for inventory purchases.

Financial assets and financial liabilities held for trading

There was no significant variance for financial assets held for trading as at 30 June 2013 and 31 December 2012. The increase in financial liabilities held for trading of S\$32,000 was mainly due to unfavourable change in fair value of outstanding foreign exchange contracts.

Borrowings

	As at	
	30 June	31 December
	2013	2012
	S\$'000	S\$'000
Bank overdraft	496	-
Bills payable	9,031	7,357
Short term bank loans	5,600	4,000
Long term bank loans	4,350	4,650
Total	19,477	16,007

The increase in overall borrowings was necessary to fund increase in working capital requirement. As a result of higher borrowings, gearing ratio increased to 0.49 times as compared to 0.40 times as at 31 December 2012 although it is still considered to be at a manageable level.

Net asset value attributable to equity holders of the Company

Net asset value per share decreased marginally from 29.90 cents as at 31 December 2012 to 29.88 cents as at 30 June 2013 as total comprehensive income achieved for H1 2013 of S\$1.3 million matched dividend paid of the same amount.

8(c) CASH FLOW ANALYSIS

Cash and cash equivalent fell from S\$8.1 million as at 31 December 2012 to S\$6.2 million as at 30 June 2013 by S\$1.9 million. This is attributed mainly to negative cash flow from operating activities of S\$2.5 million, which resulted from more advance payments to suppliers and slower collections from trade receivables. In addition, there were payments for capital expenditure of S\$1.0 million and dividend payment of S\$1.3 million. These cash needs were funded partially by net additional borrowings of S\$3.0 million.

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

In our full year results announcement for the financial year ended 31 December 2012 dated 25 February 2013, we reported that due to the close correlation of our business to the global economy, any further deterioration in the external environment will have an impact on our business prospect. Difficult market conditions persisted into H1 2013, causing a decline in our profits for this period. The results for H1 2013 were thus in line with our prospect statement.

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

RISK FACTORS

We believe the imminent risks to our financial performance in the second half of 2013 (~~H2 2013~~) are as follows:

Uncertainty in the global economy

The global economy remains clouded by Europe's economic slump, imminent scaling back of liquidity in US and slower growth in China. This may lead to a fall in demand for chemicals and thus adversely affect our business.

Volatility in energy prices

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

Currency risk

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

Interest rate risk

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

Credit risk

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

Country risk

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

PROSPECTS

A bumpy ride in H1 2013

While Megachem continued to intensify our marketing efforts to grow our business, we faced headwind from persistent uncertainties in the external environment. Market optimism and consumer confidence wavered, especially towards the end of the second quarter. The US economy gained further traction but anxiety over the tapering of quantitative easing in US, coupled with prospects of a slower China economy, threw the business sentiments into a whirlwind.

Megachem's performance in the first half reflects the on-going weakness in market conditions as customers became prudent in their purchasing strategy.

H2 2013 Prospects : Uncertainty Persist

Heading into the H2 2013, Megachem will remain relentless in implementing the specific plans we have in place to accelerate long-term value creation: (i) growing our custom-blending business following the facility expansion in 2012 and (ii) improving businesses in markets where the performances are not meeting our expectations. Importantly, we will continue to seek synergistic value through our collaboration with Chori Co., Ltd Group of Companies (a strategic shareholder and partner of Megachem).

Given the challenging market conditions, we are unable to decisively forecast our performance for the H2 2013. Nevertheless, our growth-focused actions position Megachem well to navigate ongoing challenging market conditions and deliver value to our shareholders. We expect the results of these actions to crystallise in the coming years.

11. Dividend

(a) Current financial period reported on

Any interim dividend declared for the financial period ended? Yes

The directors are pleased to recommend an interim dividend in respect of the first half financial period ended 30 June 2013 as follows:

Name of dividend : Interim tax exempt
Type of dividend : cash
Dividend amount per share (cents) : 0.3 cents per share

(b) Corresponding period of the immediately preceding financial year

The company paid an interim dividend in respect of the first half financial period ended 30 June 2012 as follows:

Name of dividend : Interim tax exempt
Type of dividend : cash
Dividend amount per share (cents) : 0.3 cents per share
Payment date : 28 September 2012

(c) Date payable

Payment of the interim tax exempt dividend of 0.3 cents per share will be made on 27 September 2013.

(d) Books closure date

NOTICE IS HEREBY GIVEN that the Transfer Books and Register of Members of the Company will be closed on 12 September 2013 for the purpose of determining members' entitlements to the proposed interim tax exempt dividend.

Duly completed and stamped transfers received by the Company's Share Registrar, Tricor Barbinder Share Registration Services (a business division of Tricor Singapore Pte Ltd), 80 Robinson Road, #02-00, Singapore 068898, up to 5.00 pm on 11 September 2013 will be registered to determine members' entitlements to the proposed dividend.

Members (being depositors) whose securities account with The Central Depository (Pte) Limited are credited with ordinary shares in the capital of the Company as at 5.00 pm on 11 September 2013 will be entitled to the payment of the proposed dividend.

12. Interested Person Transactions

Name of interested person	Aggregate value of all interested person transactions during the financial period ended 30 June 2013 under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders mandate pursuant to Rule 920)	Aggregate value of all interested person transactions during the financial period ended 30 June 2013 conducted under shareholders mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)
Transportation services rendered by Ipem Automation Sdn. Bhd., a company owned by associates of Mr Chew Choon Tee, a director of Megachem Group	(Note 1)	Nil (Note 3)
Sales of products to Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations	(Note 2)	Nil (Note 3)
Purchase of products from Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations	(Note 2)	Nil (Note 3)

Note 1 : The Group has entered into interested person transactions amounting to S\$70,523 and each transaction was below S\$100,000 which fell outside the scope of Rule 920.

Note 2 : The Group has entered into sales and purchase transactions amounting to S\$1,624 and S\$109,252 respectively and each transaction was below S\$100,000 which fell outside the scope of Rule 920.

Note 3 : The Company does not have a general interested person transaction mandate.

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

We, Chew Choon Tee and Tan Bock Chia being two directors of Megachem Limited (the "Company"), do hereby confirm on behalf of the Board of Directors that, to the best of our knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited results for the half year ended 30 June 2013 to be false or misleading in any material aspects.

On behalf of the Board of Directors

Chew Choon Tee Tan Bock Chia
Executive Chairman Executive Director

13 August 2013

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 Ms Alicia Kwan (tel : (65) 6221 5590) at 1 Robinson Road, #21-02, AIA Tower, Singapore 048542.