



MEGACHEM LIMITED

Un-audited Financial Statements and Dividend Announcement

For The Half Year Ended
30 June 2016

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TABLE OF CONTENTS

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT	1
BALANCE SHEETS	3
CONSOLIDATED CASH FLOW STATEMENT	5
STATEMENTS OF CHANGES IN EQUITY	6
ACCOUNTING POLICIES	8
EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY	8
NET ASSET VALUE PER SHARE	8
REVIEW OF PERFORMANCE	9
FORECAST	15
RISK	15
PROSPECTS	16
DIVIDENDS	17
INTERESTED PARTY TRANSACTION	18
UNDERTAKING PURSUANT TO RULE 720(1)	19



UNAUDITED RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2016

The directors of Megachem Limited are pleased to advise the following unaudited results of the Group for the half year ended 30 June 2016.

(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 HALF YEAR ENDED 30 JUNE 2016

	For the half year	For the half year	Variance	
	ended 30 June 2016	ended 30 June 2015	Favourable/(Unfavourable)	
	S\$	S\$	S\$'000	%
Sales	51,294,942	57,570,884	(6,276)	(10.9%)
Cost of sales	<u>(38,463,928)</u>	<u>(44,775,082)</u>	6,311	14.1%
Gross profit	12,831,014	12,795,802	35	0.3%
Other operating income	308,164	198,035	110	55.6%
Distribution costs	(7,081,389)	(6,823,106)	(258)	(3.8%)
Administrative expenses	(2,514,299)	(2,387,468)	(127)	(5.3%)
Other operating expenses	(1,724,606)	(1,795,583)	71	4.0%
Finance costs	(290,623)	(282,740)	(8)	(2.8%)
Share of profit of associated companies	280,615	312,780	(32)	(10.3%)
Profit before income tax	1,808,876	2,017,720	(209)	(10.4%)
Income tax expense	<u>(888,317)</u>	<u>(525,479)</u>	(363)	(69.0%)
Net profit	920,559	1,492,241	(572)	(38.3%)
Other comprehensive income:				
Exchange differences on translating foreign operations, net of tax	<u>(675,037)</u>	<u>(456,029)</u>	(219)	(48.0%)
Total comprehensive income	245,522	1,036,212	(791)	(76.3%)
Net profit attributable to:				
Equity holders of the Company	787,092	1,332,781	(546)	(40.9%)
Non-controlling interests	<u>133,467</u>	<u>159,460</u>	(26)	(16.3%)
Net profit	920,559	1,492,241	(572)	(38.3%)
Total comprehensive income attributable to:				
Equity holders of the Company	246,742	836,688	(590)	(70.5%)
Non-controlling interests	<u>(1,220)</u>	<u>199,524</u>	(201)	(100.6%)
Total comprehensive income	245,522	1,036,212	(791)	(76.3%)
Earnings per share of profit attributable to equity holders of the Company during the financial year				
- basic and diluted	<u>0.59 cents</u>	<u>1.00 cents</u>		



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

	For the half year ended 30 June 2016 S\$	For the half year ended 30 June 2015 S\$
<u>Other operating income</u>		
Bad debt recovered	46,379	50,981
Change in fair value of financial assets held for trading	102,795	75,623
Dividend income	1,524	2,137
Gain on disposal of property, plant and equipment	40,699	-
Grant income	76,037	33,445
Interest income from banks	32,737	27,366
Rental income	7,993	8,483
	<u>308,164</u>	<u>198,035</u>
Change in fair value of financial assets held for trading		
- forward foreign exchange contracts	67,795	75,623
- listed equity security	35,000	(15,000)
Change in fair value of financial liabilities held for trading		
- forward foreign exchange contracts	(329,408)	(60,016)
Depreciation and amortisation	(732,289)	(758,904)
Interest on borrowings	(290,623)	(282,740)
Impairment of trade receivables	(385,262)	(68,004)
Net foreign exchange loss	(58,937)	(388,546)
Write off of inventory	(243,341)	(186,783)
Adjustment for (under)/over provision for tax in respect of prior reporting years	(10,179)	7,072



1(b)(i) A statement of financial position (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 30 JUNE 2016

	<u>Group</u>		<u>Company</u>	
	30 June 2016 S\$	31 December 2015 S\$	30 June 2016 S\$	31 December 2015 S\$
ASSETS				
Non-current assets				
Property, plant and equipment	12,130,333	12,445,028	1,838,612	1,846,867
Investment property	88,341	88,290	-	-
Investments in subsidiaries	-	-	5,439,769	5,439,769
Investment in associated companies	3,062,442	5,198,955	2,798,756	99,949
Transferable club memberships	27,386	26,963	4,001	4,001
	15,308,502	17,759,236	10,081,138	7,390,586
Current assets				
Inventories	20,782,138	21,003,149	10,224,397	11,066,445
Trade and other receivables	26,334,127	25,860,679	17,270,196	15,312,290
Financial assets held for trading	206,659	142,186	146,226	121,158
Other current assets	2,608,432	1,874,837	371,777	279,562
Cash and bank balances	10,641,427	11,059,729	3,063,067	3,630,363
	60,572,783	59,940,580	31,075,663	30,409,818
Total assets	75,881,285	77,699,816	41,156,801	37,800,404
EQUITY AND LIABILITIES				
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	(4,422,684)	(3,882,334)	-	-
Retained earnings	30,040,062	30,186,070	8,751,869	4,797,132
	41,509,406	42,195,764	24,643,897	20,689,160
Non-controlling interests	2,809,978	2,888,052	-	-
Total equity	44,319,384	45,083,816	24,643,897	20,689,160
Non-current liabilities				
Borrowings	1,418,579	3,710,594	-	-
	1,418,579	3,710,594	-	-
Current liabilities				
Current income tax liabilities	151,585	212,434	-	64,071
Trade and other payables	12,577,280	14,083,909	7,504,394	7,216,879
Borrowings	17,114,954	14,558,468	9,003,554	9,829,813
Financial liabilities held for trading	299,503	50,595	4,956	481
	30,143,322	28,905,406	16,512,904	17,111,244
Total liabilities	31,561,901	32,616,000	16,512,904	17,111,244
Total equity and liabilities	75,881,285	77,699,816	41,156,801	37,800,404

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 2016		As at 31 December 2015	
Secured	Unsecured	Secured	Unsecured
S\$5,625,836	S\$11,489,118	S\$2,193,492	S\$12,364,976

Amount repayable after one year

As at 30 June 2016		As at 31 December 2015	
Secured	Unsecured	Secured	Unsecured
S\$1,418,579	-	S\$3,710,594	-

Details of collateral

The secured borrowings were collateralized on:

- i. fixed and floating charges over all the assets and undertaking of subsidiaries, including all present and future freehold and leasehold property, book and other debts, chattels, goodwill and uncalled capital, both present and future;
- ii. mortgage over property of a subsidiary located at 11 Tuas Link 1 Singapore 638588 and;
- iii. industrial land of a subsidiary at Seri Alam Industrial Park, Sungai Kapar, Indah, Klang, Selangor, Malaysia



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

CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 30 JUNE 2016

	For the half year ended 30 June 2016 S\$	For the half year ended 30 June 2015 S\$
Cash flows from operating activities		
Net profit	920,559	1,492,241
Adjustments for:		
Change in fair value of financial assets held for trading	(35,000)	15,000
Depreciation charge	732,289	758,904
Dividend income	(2,137)	(2,137)
Gain on disposal of property, plant and equipment	(40,699)	-
Share of profit of associated companies	(280,615)	(312,780)
Income tax expense	888,317	525,479
Interest income	(32,124)	(27,366)
Finance costs	290,623	282,740
Operating cash flow before working capital changes	<u>2,441,213</u>	<u>2,732,081</u>
Change in operating assets and liabilities		
Trade and other receivables	(1,676,865)	961,866
Inventories	(154,009)	475,170
Financial assets held for trading	(29,473)	(28,583)
Trade and other payables	(270,323)	(1,126,274)
Financial liabilities held for trading	248,908	8,931
Foreign exchange adjustment differences	(39,652)	(130,482)
Cash from operations	<u>519,799</u>	<u>2,892,709</u>
Income tax paid	(841,905)	(728,985)
Interest received	32,124	27,366
Net cash (used in)/from operating activities	<u>(289,982)</u>	<u>2,191,090</u>
Cash flows from investing activities		
Dividends received	3,946,191	395,580
Purchase of property, plant and equipment	(380,262)	(964,333)
Proceeds from sale of property, plant and equipment	41,358	-
Subscription for shares in associated company	(2,698,807)	-
Net cash from/(used in) investing activities	<u>908,480</u>	<u>(568,753)</u>
Cash flows from financing activities		
Dividends paid	(933,100)	(933,100)
Dividends paid by subsidiary to non-controlling shareholders	(76,854)	(116,800)
(Repayments of)/proceeds from long term bank loan	(361,129)	1,556,206
Proceeds from/(repayments of) bills payables	869,730	(1,401,503)
Repayment of short term bank loans	(576,203)	(260,020)
Payment of prior year unclaimed dividends	-	(7,500)
Interest paid	(302,373)	(294,068)
Net cash used in financing activities	<u>(1,379,929)</u>	<u>(1,456,785)</u>
Net (decrease)/increase in cash and cash equivalents held	(761,431)	165,552
Cash and cash equivalents, statement of cashflow, beginning balance	11,059,729	8,999,243
Effects of exchange rate changes on cash and cash equivalents equivalents	(137,006)	(58,104)
Cash and cash equivalents, statement of cashflow, ending balance	<u>10,161,292</u>	<u>9,106,691</u>
Cash and cash equivalents comprised the followings:		
Cash and bank balances	10,641,427	9,106,691
Less: bank overdraft	(480,135)	-
	<u>10,161,292</u>	<u>9,106,691</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 2016

	← 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 2016	45,083,816	42,195,764	15,892,028	(3,882,334)	30,186,070	2,888,052
Total comprehensive income for the reporting period	245,522	246,742	-	(540,350)	787,092	(1,220)
Final dividend relating to 2015 paid	(933,100)	(933,100)	-	-	(933,100)	-
Final dividend paid to non-controlling interest	(76,854)	-	-	-	-	(76,854)
Balance at 30 June 2016	44,319,384	41,509,406	15,892,028	(4,422,684)	30,040,062	2,809,978
Balance at 1 January 2015	44,518,951	41,922,815	15,892,028	(2,540,305)	28,571,092	2,596,136
Total comprehensive income for the reporting period	1,036,212	836,688	-	(496,093)	1,332,781	199,524
Final dividend relating to 2014 paid	(933,100)	(933,100)	-	-	(933,100)	-
Prior years unclaimed dividends paid	(7,500)	(7,500)	-	-	(7,500)	-
Final dividend paid to non-controlling interest	(116,800)	-	-	-	-	(116,800)
Balance at 30 June 2015	44,497,763	41,818,903	15,892,028	(3,036,398)	28,963,273	2,678,860

<u>The Company</u>	Total equity S\$	Share capital S\$	Retained earnings S\$
Balance at 1 January 2016	20,689,160	15,892,028	4,797,132
Total comprehensive income for the reporting period	4,887,837	-	4,887,837
Final dividend relating to 2015 paid	(933,100)	-	(933,100)
Balance at 30 June 2016	<u>24,643,897</u>	<u>15,892,028</u>	<u>8,751,869</u>
Balance at 1 January 2015	19,043,685	15,892,028	3,151,657
Total comprehensive income for the reporting period	1,294,634	-	1,294,634
Final dividend relating to 2014 paid	(933,100)	-	(933,100)
Prior years unclaimed dividends paid	(7,500)	-	(7,500)
Balance at 30 June 2015	<u>19,397,719</u>	<u>15,892,028</u>	<u>3,505,691</u>

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 being 31 December 2015.

There were no unissued shares in the capital of the Company reserved for the exercise of any option nor were there any treasury share as at the end of the financial periods ended 30 June 2016 and 30 June 2015.

There were no outstanding convertibles as at 30 June 2016 and 30 June 2015.

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

The total number of issued ordinary shares, excluding treasury shares, as at the end of the financial period and year ended 30 June 2016 and 31 December 2015 was 133,300,000 shares.

1(d)(iv) A statement showing all sales, transfers, disposals, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

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

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

The figures have not been audited or reviewed.



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

Not applicable.

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

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as those of the audited financial statements for the financial year ended 31 December 2015.

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 2016, the Group adopted the new and revised Financial Reporting Standards ("FRS") and Interpretations to FRS ("INT FRS") that are relevant to its operations and mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective FRS and INT FRS.

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

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

	For the half year ended 30 June 2016	For the half year ended 30 June 2015
Earnings per ordinary shares (in cents)		
a) Based on weighted average number of ordinary shares on issue	0.59	1.00
b) On a fully diluted basis	0.59	1.00
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.

	30 June 2016	<u>Group</u> 31 December 2015	30 June 2016	<u>Company</u> 31 December 2015
Net asset value per ordinary share based on issued share capital (cents)	31.14	31.65	18.49	15.52
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	H1 2015	H2 2015	H1 2016	Variance H1 2016 vs H2 2015		Variance H1 2016 vs H1 2015	
				Fav/(Unfav)	%	Fav/(Unfav)	%
Sales (S\$'mil)	57.6	53.0	51.3	(1.7)	(3.2%)	(6.3)	(10.9%)
Gross profit (S\$'mil)	12.8	12.6	12.8	0.3	2.0%	-	0.3%
Gross profit margin	22.2%	23.7%	25.0%	1.3% pts	na	2.8% pts	na
Total operating expenses and finance costs (S\$'mil)	11.3	10.9	11.6	(0.7)	(6.7%)	(0.3)	(2.9%)
Other operating income (S\$'000)	198	90	308	218	241.9%	110	55.6%
Share of profit of associated companies (S\$'000)	313	585	281	(304)	(52.0%)	(32)	(10.3%)
Net profit before tax (S\$'mil)	2.0	2.4	1.8	(0.6)	(23.6%)	(0.2)	(10.4%)
Net profit after tax (S\$'mil)	1.5	1.8	0.9	(0.9)	(48.6%)	(0.6)	(38.3%)
Net profit after tax margin	2.6%	3.4%	1.8%	(1.6% pts)	na	(0.8% pts)	na
EBITDA (S\$'mil)	3.0	3.4	2.8	(0.6)	(16.5%)	(0.2)	(7.7%)
EBITDA margin	5.3%	6.3%	5.5%	(0.8% pts)	na	0.2% pts	na
Earnings per share attributable to the equity holders of the Company (cents)	1.00	1.22	0.59	(0.63)	(51.6%)	(0.41)	(41.0%)
Annualised return on equity (ROE)	6.4%	7.7%	3.8%	(3.9% pts)	na	(2.6% pts)	na

8(a) PROFITABILITY ANALYSIS

8(a)(i) Sales

	H1 2015	H2 2015	H1 2016	Variance Fav/(Unfav) H1 2016 vs H2 2015		Variance Fav/(Unfav) H1 2016 vs H1 2015	
	S\$'000	S\$'000	S\$'000	S\$'000	%	S\$'000	%
ASEAN	38,843	36,183	34,492	(1,691)	(4.7)	(4,351)	(11.2)
North Asia	6,615	7,882	7,038	(844)	(10.7)	423	6.4
Europe	3,438	3,083	3,078	(5)	(0.2)	(360)	(10.5)
America	2,856	755	623	(132)	(17.5)	(2,233)	(78.2)
South Asia	2,363	2,380	2,745	365	15.3	382	16.2
Middle East	2,194	1,696	1,945	249	14.7	(249)	(11.3)
Australia	1,231	967	1,367	400	41.4	136	11.0
Africa	31	43	7	(36)	(83.7)	(24)	(77.4)
Total	57,571	52,989	51,295	(1,694)	(3.2)	(6,276)	(10.9)



Geographic Segment Sales Analysis

H1 2016 vs H2 2015

Overall sales contracted marginally by S\$1.7 million or 3.2% as compared to the second half of 2015 ("H2 2015"). The main decrease in sales came from ASEAN and North Asia markets which decreased by S\$1.7 million or 4.7% and S\$0.8 million or 10.7% respectively.

On the other hand, sales to South Asia continued to grow while sales to the Middle East and Australia picked up moderately by S\$0.2 million and S\$0.4 million respectively after a dip in H2 2015.

H1 2016 vs H1 2015

As compared to the first half of 2015 ("H1 2015"), sales decreased by S\$6.3 million or 10.9% to S\$51.3 million in the first half of 2016 ("H1 2016") mainly due to softer market conditions. The biggest fall was mainly contributed by reduced sales to ASEAN of S\$4.4 million or 11.2% followed by to America of S\$2.2 million or 78.2%. A smaller fall was registered from Europe and the Middle East markets while higher sales to North and South Asia and Australia markets partially compensated for the decline year-on-year.

Business Activity Segment Sales Analysis

	H1 2015	H2 2015	H1 2016	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2016 vs H2 2015	%	H1 2016 vs H1 2015	%
Distribution activity	55,892	51,202	49,636	(1,566)	(3.1)	(6,256)	(11.2)
Manufacturing activity	1,679	1,787	1,659	(128)	(7.2)	(20)	(1.2)
Total Sales	57,571	52,989	51,295	(1,694)	(3.2)	(6,276)	(10.9)

H1 2016 vs H2 2015

Fall in sales came mainly from distribution activities while manufacturing activities fell marginally in H1 2016 as compared to H2 2015.

H1 2016 vs H1 2015

As compared to H1 2015, the decrease in sales was also attributed mainly to distribution activities while manufacturing activities remained relatively unchanged.

8(a)(ii) Gross profit

H1 2016 vs H2 2015

Gross profit margin for H1 2016 improved by 1.3%-point over H2 2015 mainly due to better gross profit margin across several markets such as ASEAN, Middle East and Asia. This led to an increase in gross profit of S\$0.3 million or 2.0% despite a slight decrease in sales in H1 2016.

H1 2016 vs H1 2015

Better gross profit margin in H1 2016 offset the 10.9% drop in sales leading to gross profit coming in flat at S\$12.8 million.

8(a)(iii) Other operating income

	H1 2015	H2 2015	H1 2016	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2016 vs H2 2015	%	H1 2016 vs H1 2015	%
Bad debt recovered	51	19	46	27	141.3	(5)	(9.0)
Change in fair value of financial assets held for trading							
- forward foreign exchange contracts	76	(43)	68	111	256.0	(8)	(10.4)
- listed equity security	-	10	35	25	250.0	35	NM
Grant income	33	59	76	17	29.3	43	127.3
Gain on disposal of plant and equipment	-	-	41	41	NM	41	NM

NM : not meaningful

H1 2016 vs H2 2015

Other operating income more than tripled to S\$308,000 mainly due to higher fair value gain from forward foreign exchange contracts and listed equity security of S\$111,000 and S\$25,000 respectively, higher bad debt recovered, grant income and gain on disposal of property, plant and equipment of S\$41,000.

H1 2016 vs H1 2015

Other operating income increased by S\$110,000 or 55.6% mainly due to higher grant income of S\$43,000, fair value gain from listed equity security of S\$35,000 and gain on disposal of property, plant and equipment of S\$41,000.

8(a)(iv) Operating expenses

H1 2016 vs H2 2015

Total operating expenses for H1 2016 increased by S\$0.7 million or 7.1% over H2 2015 to S\$11.3 million. This was primarily caused by net foreign exchange loss and change in fair value of financial liabilities of S\$0.4 million in total as compared to net gain in H2 2015 of S\$0.3 million. The loss incurred in H1 2016 was mainly due to the weakening of the United State Dollars against Singapore Dollars.

	H1 2015	H2 2015	H1 2016	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2016 vs H2 2015	%	H1 2016 vs H1 2015	%
Change in fair value of financial liabilities							
- forward foreign exchange contracts	60	(9)	329	(339)	NM	(269)	(448.9)
Employee remuneration and related expenses	6,277	6,287	6,426	(139)	(2.2)	(149)	(2.4)
Impairment of trade receivables	68	36	385	(349)	(959.2)	(317)	(466.5)
Net foreign exchange (gain)/loss	389	(305)	59	(364)	(119.3)	330	84.8
Professional fees	270	346	376	(30)	(8.7)	(106)	(39.1)
Travelling and transport	461	540	398	142	26.3	63	13.7
Rental	1,305	1,393	1,226	167	12.0	79	6.0

NM : not meaningful



Allowance for impairment of trade receivables was made for receivables from America and Indonesia which led to an increase of S\$0.3 million in H1 2016 while the increase in employee remuneration and related expenses of S\$0.1 million or 2.2% was mainly due to annual pay increment.

On the other hand, better utilisation of warehouse space and reduced travelling activities in H1 2016 resulted in a decrease in rental and travelling and transport expenses by S\$167,000 and S\$142,000 respectively.

H1 2016 vs H1 2015

Year-on-year, total operating expenses increased by S\$0.3 million or 2.9%. Other than cost components that were explained above, higher professional fees of S\$0.1 million were incurred in H1 2016 for certain services such as corporate-related consultancy fees and lawyers' fees for trademarks registrations.

8(a)(v) Finance costs

Finance costs comprised the following:-

	H1 2015	H2 2015	H1 2016	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2016 vs H2 2015	%	H1 2016 vs H1 2015	%
Bills payables	144	137	127	10	7.1	17	12.0
Bank loans	139	173	164	9	5.5	(25)	(18.2)
Total finance costs	283	310	291	19	6.2	(8)	(2.8)

H1 2016 vs H2 2015

H1 2016 vs H1 2015

Overall finance costs fell by S\$19,000 or 6.2% in H1 2016 as average borrowings decreased as compared to H2 2015.

As compared to H1 2015, total finance costs were relatively unchanged.

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

H1 2016 vs H2 2015

H1 2016 vs H1 2015

The decrease in our share of profits of S\$0.3 million or 52.0% vis-à-vis H2 2015 was largely due to one-time valuation gain of S\$0.2 million on plant and equipment in H2 2015 resulting from the restructuring of one of our associated companies.

Although sales from the distribution business segment from our associated company had picked up in H1 2016 as compared to H2 2015 and H1 2015, profitability had contracted mainly due to higher operating expenses incurred partly in relation to its proposed listing in the stock exchange in Thailand.

8(a)(vii) Profit before income tax

H1 2016 vs H2 2015

Although gross profit was S\$0.3 million higher in H1 2016, this was offset by lower share of profit of associated companies of S\$0.3 million and negative impact from foreign exchange loss and net change in fair value of forward exchange contracts of S\$0.6 million.

As a result, profit before tax decrease by S\$0.6 million or 23.6% and EBITDA also decline by the same magnitude or 16.5% as compared to H2 2015.

H1 2016 vs H1 2015

Year-on-year, profit before tax decreased by S\$0.2 million or 10.4% due to higher operating expenses of S\$0.3 million offset by higher operating income of S\$0.1 million.



8(a)(viii) Net profit

The increase in income tax expense by \$312,000 and S\$363,000 in H1 2016 vis-à-vis H2 2015 and H1 2015 respectively was mainly due to withholding tax paid for more dividends received from our associated company in the current period.

Therefore, because of the increase in income tax expense, net profit after tax decreased by S\$0.9 million or 48.6% vis-à-vis H2 2015 to S\$0.9 million and year-on-year, it decreased by S\$0.6 million or 38.3%. Excluding the increase in withholding tax of S\$346,000 year-on-year, the fall in net profit as compared to H1 2015 would be S\$225,000 or 14.6%.

8(a)(ix) Total comprehensive income

The net exchange losses on translation of foreign operations of S\$0.7 million in H1 2016 arose primarily from the significant weakening in British Pound while the net exchange losses on translation in H1 2015 and H2 2015 of S\$0.5 million and S\$0.8 million respectively resulted mainly from weakening of Malaysian Ringgit throughout 2015.

As such, due to lower net exchange losses on translation of foreign operations of S\$0.1 million in H1 2016, comprehensive income decrease by S\$0.7 million or 75.1% vis-à-vis H2 2015.

As compared to H1 2015, comprehensive income fell by S\$0.8 million or 76.3% as net exchange losses on translation of foreign operations was S\$0.2 million higher in H1 2016.

8(b) BALANCE SHEET ANALYSIS

Balance Sheet Highlights	As at		Variance
	31 December 2015	30 June 2016	30 June 2016 vs 31 December
			Fav/(Unfav)
Cash (S\$mil)	11.1	10.6	(0.4)
Borrowings (S\$mil)	18.3	18.5	(0.3)
Current ratio (times)	2.07	2.01	(0.06)
Gearing ratio (times)	0.43	0.45	(0.02)
Net assets per share attributable to equity holders of the Company (cents)	31.65	31.14	(0.51)
Inventory turnover (days)	101	112	(11)
Trade receivables turnover (days)	93	92	1

Property, plant and equipment

The slight decrease in property, plant and equipment by S\$0.3 million or 2.5% was due to depreciation charge of S\$732,000 for the current period offset by purchase of motor vehicles of S\$0.4 million.

Investment in associated companies

The decrease in carrying value of our associated companies by S\$2.1 million or 41.1% was mainly due to dividends declared of S\$5.1 million offset by increase in investment in associated company of S\$2.7 million and positive contribution from our associated companies for the current period of S\$0.3 million.

Trade and other receivables

Net third party trade receivables decreased by S\$0.6 million or 2.2% from S\$25.5 million as at 31 December 2015 to S\$24.9 million as at 30 June 2016 partly due to impairment of trade receivables made in H1 2016 of S\$0.4 million. Another reason that cause the decline was the lower sales in H1 2016 as compared to H2 2015. Turnover days for the current period remained relatively stable at 92 days as compared to 93 days for the full year of 2015.

Other receivables from associated company increased by S\$1.1 million due to dividends receivables that remained outstanding as at 30 June 2016.

Inventories

Inventories decreased marginally by S\$0.2 million or 1.1% to S\$20.8 million as at 30 June 2016 from S\$21.0 million as at 31 December 2015. The slower sales had led to an increase in inventory turnover days from 101 days for the full year of 2015 to 112 days in H1 2016.

Other current assets

Other current assets stood at S\$2.6 million, which consist mainly of advances to suppliers and prepayments, and represent an increase of S\$0.7 million or 39.1% as compared to S\$1.9 million as at end of last year. This was largely due to timing difference in advance payments to suppliers.

Financial assets and financial liabilities held for trading

The increase in financial assets held for trading was partly due to positive fair value gain of S\$35,000 in listed equity and partly because of an increase in fair value of forward contracts of S\$29,000. Similarly, financial liabilities held for trading increased by S\$249,000 as a result of unfavourable fair value change in the forward contracts as at 30 June 2016.

Trade and other payables

Corresponding to the decrease in inventories, trade payables fell by S\$0.3 million or 3.7% to S\$7.0 million as at 30 June 2016 from S\$7.2 million as at 31 December 2015.



Other payables in aggregate decreased by S\$1.2 million from S\$6.9 million as at 31 December 2015 to S\$5.6 million as at 30 June 2016. Accrued operating expenses fell by S\$0.8 largely due to timing difference in payments while short term loan from director decreased by S\$0.2 million as further repayments were made in H1 2016. Advance payments from customers, mainly from South America, decreased by S\$0.3 million as sales to this market were further reduced in this current period.

Borrowings

Total borrowings increased marginally by S\$264,000 or 1.4% as more trade borrowings were utilized to finance the increase in advance payments to suppliers. On the other hand, both short term and long term bank loans in aggregate fell by S\$1.0 million as compared to 31 December 2015.

A long term bank loan of value S\$2.6 million had been reclassified to current liabilities as it was due for repayment within a year. Hence, non-current borrowings decreased by S\$2.3 million as compared to 31 December 2015

In line with higher borrowings, our gearing ratio thus increased from 0.43 times as at 31 December 2015 to 0.45 times as at 30 June 2016.

Net asset value

Net asset value per share decreased from 31.65 cents as at 31 December 2015 to 31.14 cents as at 30 June 2016 as a result of dividend payment to shareholders of S\$0.9 million and a lower comprehensive income for the current period of S\$246,000.

8(c) CASH FLOW

Cash and cash equivalents decreased by S\$0.9 million to S\$10.2 million as at 30 June 2016 as compared to 31 December 2015. Due to a longer cash conversion cycle in the current period, S\$0.3 million cash was used to support operating activities and this need was financed through trade borrowing proceeds. In addition, cash and cash equivalents were also utilized to repay bank loans of S\$0.9 million.

S\$3.9 million dividends received from associated company were partially use to increase our investment in the associated company of S\$2.7 million by subscribing to additional shares in its paid up capital pursuant to its proposed listing on the stock exchange of Thailand. Cash was also used to meet our dividend payment obligation of S\$0.9 million and to partly finance capital expenditure of S\$0.4 million.

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

There was no forecast previously disclosed to shareholders.

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 2015 ("H2 2015") are as follows:

The global economy

Although the US economy remains on track, the fear of further deceleration in China's growth and concern over the fragility of the Euro zone, especially after Brexit, have escalated. If these risk factors do not subside, it may weigh on the prospects for the chemical industry. This will then have an impact on our business.

Volatility in energy prices

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



Currency risk

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

Interest rate risk

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

Credit risk

Our products are sold to more than 2,000 customers across many countries. The credit risks in some countries are more difficult to assess. Any significant payment default will negatively impact on our financial performance.

Country risk

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

Inventory risk

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

PROSPECTS

In our previous result announcement in February 2016, we shared with investors and shareholders our expectation of a challenging economic environment going into 2016 and concerns that our efforts to maintain revenue growth momentum may face external challenges.

Since then, it has panned out the way we had expected. A volatile first half, marked by continued concerns over the impact of slowing China's economy, interest rate hike in the United States of America and more recently Brexit, dampened business sentiment in the chemical industry.

Looking forward into the second half of 2016, these same factors will continue to loom over the global economy and may curb demand for chemicals. Therefore our outlook for the second half of 2016 remains muted.

Despite the headwinds ahead of us, we will remain resolute in executing our strategy of building resilience for long term growth through portfolio readjustment, diversification and operational excellence. We will also be relentless in developing strong relationships with key partners in the industry and in building our business in Asia.



11. Dividend

(a) Current financial period reported on

Any interim dividend declared for the financial period ended? Yes

The directors are pleased to declare an interim tax exempt dividend of 0.5 cent per share in respect of the financial period ended 30 June 2016 as follows:

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

(b) Corresponding period of the immediately preceding financial year

Any dividend declared for the immediately preceding financial period ended 30 June 2015? Yes

Name of dividend	Interim
Dividend type	Cash
Dividend amount per share (in cents)	0.3
Tax rate	Exempt

(c) Date payable

The interim tax exempt dividend of 0.5 cent per share in respect of the financial period ended 30 June 2016 will be paid on 30 September 2016.

(d) Books closure date

The Transfer Books and Register of Members of the Company will be closed on 15 September 2016 for the purpose of determining member's entitlements to the proposed interim tax exempt dividend.

Duly completed and stamped transfers received by the Company's Share Registrar, Tricor Barbinder Share Registration Services (a division of Tricor Singapore Pte Ltd), 80 Robinson Road, #02-00, Singapore 068898, up to 5.00pm on 14 September 2016 will be registered to determine member's entitlement to the proposed dividend.

Members (being depositors) whose securities account with The Central Depository (Pte) Limited are credited with ordinary shares in the capital of the Company as at 5.00pm on 14 September 2016 will be entitled to the payment of the proposed dividend.

Payment of the interim tax exempt dividend of 0.5 cent per share will be made on 30 September 2016.

12. Related Parties and Interested Person Transactions

Name of interested person	Aggregate value of all interested person transactions during the financial period ended 30 June 2016 under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions during the financial period ended 30 June 2016 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)	NA (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)	S\$104,265 (Note 3)
Purchase of products from SPCI Pte Ltd, a company of which Dr Tay Kin Bee is also a director	(Note 4)	NA (Note 4)
Short term loan from Tan Bock Chia, a director of Megachem Group	(Note 5)	NA (Note 5)

Note 1 : The Group entered into interested person transactions amounting in aggregate to S\$14,455 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 : Before shareholders' mandate was approved in the extraordinary general meeting held on 15 April 2016, the Group had no sales to Chori Co., Ltd and its related corporations. There were also no sales to Chori Co., Ltd after the shareholders' mandate was obtained.

Note 3 : Before shareholders' mandate was approved in the extraordinary general meeting held on 15 April 2016, the Group entered into purchase transactions with Chori Co., Ltd amounting in aggregate to S\$88,142 and each purchase transaction was below S\$100,000 which fell outside of the scope of Rule 920.

After 15 April 2016, the Group entered into purchase transactions with Chori Co., Ltd amounting in aggregate to S\$185,753 (including transactions less than S\$100,000) and these transactions were conducted under the shareholders' mandate. S\$104,265 disclosed in the table above has excluded transactions below S\$100,000.

Note 4 : The Group entered into purchase transactions amounting in aggregate to S\$34,789 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\$528,060 received by the Group which remains outstanding as at 30 June 2016 is interest-free. There was no prior shareholders' mandate obtained for this interested person transaction.

NA : not applicable



13. Undertaking from directors and executive officers in pursuant to Rule 720(1).

The Company had procured signed undertakings from all its Directors and executive officers based on the latest revised form set out in Appendix 7H of the Catalist Rules.

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

We, Chew Choon Tee and Tan Bock Chia being two directors of Megachem Limited (the "Company"), do hereby confirm on behalf of the Board of Directors that, to the best of our knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited results for the half year ended 30 June 2016 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

11 August 2016