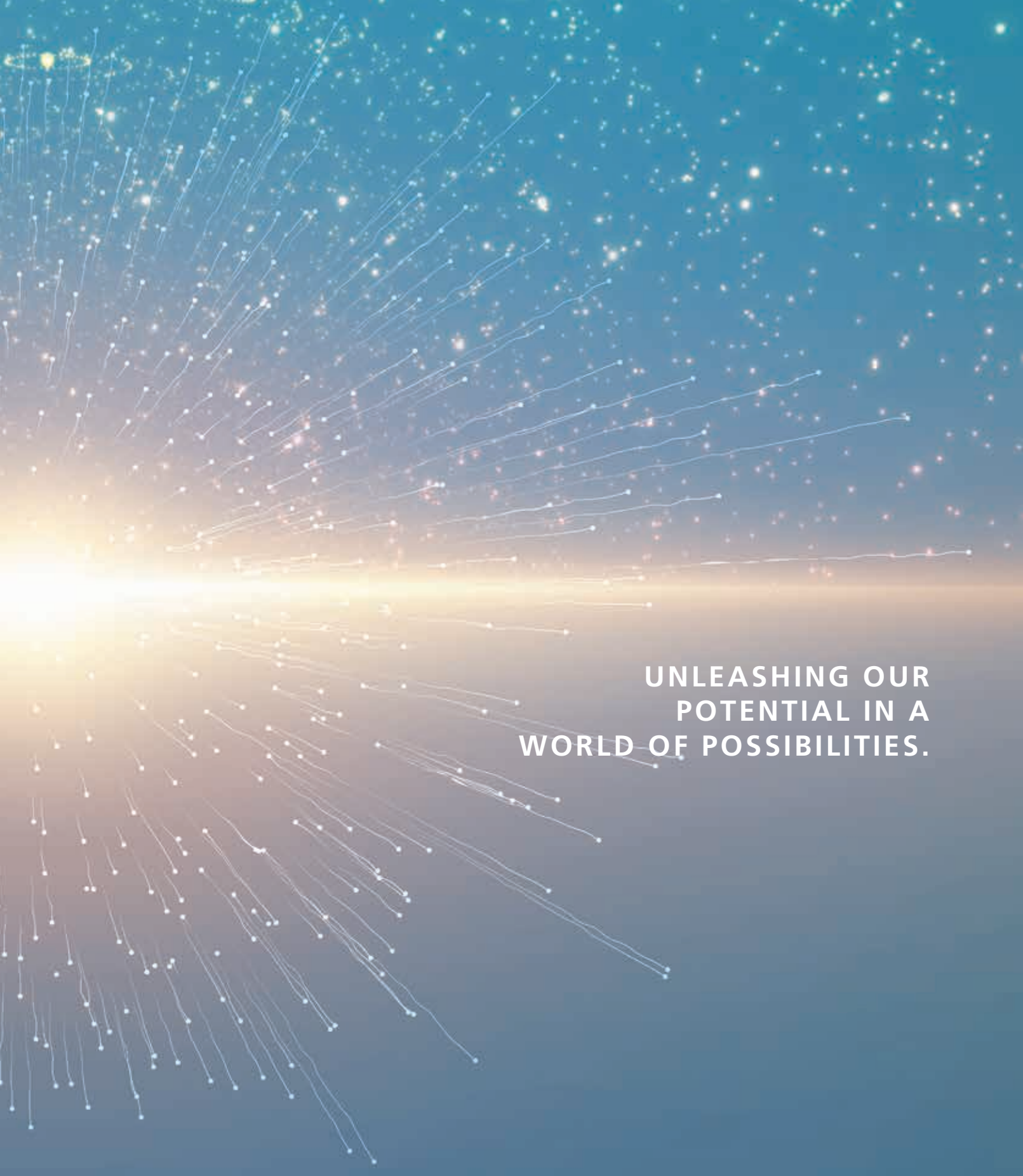




POTENTIAL & POSSIBILITIES

ANNUAL
REPORT
2 0 1 8



**UNLEASHING OUR
POTENTIAL IN A
WORLD OF POSSIBILITIES.**

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

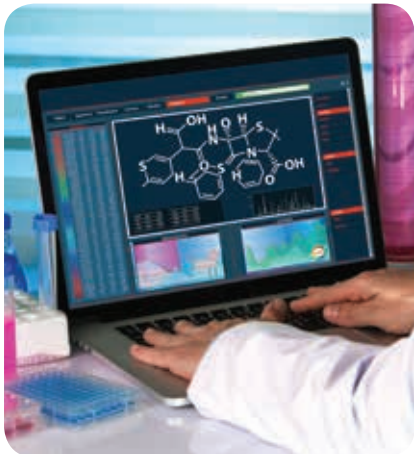
This annual report has not been examined or approved by the Exchange and the Exchange assumes no responsibility for the contents of this annual report, including the accuracy of any of the statements or opinions made or reports contained in this annual report.

The contact person for the Sponsor is Mr David Yeong (Telephone: (65) 6232 3210) at 1 Robinson Road, #21-00 AIA Tower Singapore 048542.

**AT A
GLANCE**

**NET PROFIT
S\$4.3 MIL**

1.9% ↑



**RECORD SALES
S\$117.9 MIL**

9% ↑

**NO OF
CUSTOMERS**

>2,000

**GEOGRAPHIC
NETWORK**

12

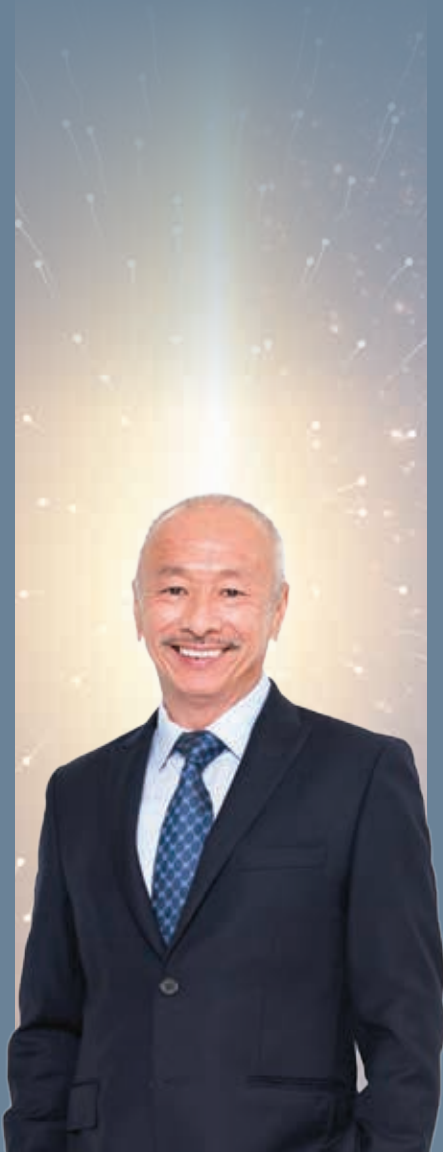
**PER SHARE
FULL YEAR DIVIDEND**

1.5 cents

(2017: 1.2 cents
per share)



CHAIRMAN'S MESSAGE



DEAR VALUED SHAREHOLDERS,

On behalf of the Board of Directors, it is my pleasure to present to you Megachem Limited's ("Megachem", and together with its subsidiaries and associated companies, collectively the "Group") annual report for the financial year ended 31 December 2018 ("FY 2018").

RECORD BREAKING YEAR DESPITE CHALLENGING OPERATING ENVIRONMENT

FY 2018 posed a challenging operating environment for the global economy, marked by trade tensions namely between U.S. and China, interest rate hikes, markets fragility and fears of a global growth stagnation. While these factors might have dampened overall sentiments, we are heartened that we celebrated our 30th anniversary with a strong set of financials, including an all-time high revenue of S\$117.9 million. This is a testament to the robustness of the Group's strategy and soundness of our business model with a far industry reach and strong support from our diversified customer base.

BROAD-BASED GROWTH SUPPORTS SOLID FINANCIAL PERFORMANCE

This financial year, we saw a strong 9.0% growth in revenue to hit a record S\$117.9 million. The growth was largely backed by improved sales performance from North Asia, the Group's second largest market, which recorded the fastest increase in turnover of 35.4%. Our businesses in other markets such as ASEAN, Europe, Middle East, Australia and South Asia also recorded higher sales. Correspondingly, the Group recorded a 10.7% increase in gross profit to S\$29.4 million.

In terms of business segments, sales growth was seen in both our distribution and manufacturing segments. Sales from the distribution segment increased by 8.2% to S\$114.2 million due to broad based growth across most major markets, whilst sales from manufacturing segment surged by 41.3% year-on-year to S\$3.7 million.

Total operating expenses (excluding finance costs) increased marginally by S\$0.3 million to S\$24.5 million in FY 2018 from FY 2017. This was mainly due to the fair value loss on listed equity, higher staff costs and rental expenses. The increase was partially offset by lower allowance for impairment of trade receivables, which fell by S\$1.0 million or 75.5% largely as a result of the allowance for impairment of receivables from Venezuela made last year.

Net profit before tax of the Group improved by 3.3% to S\$5.4 million in FY 2018 following the increase in gross profit. However, this increase in gross profit was partially eroded by the absence of an one-time valuation gain from the listing of the associated company recorded in FY 2017 and changes in fair value of listed equity. Excluding the change in fair value of listed equity, one-time valuation gain arising from the listing of associated company and further adjusting for allowance for trade impairment of trade receivables from Venezuela, net profit before tax would have been 36.3% higher as compared to the previous corresponding year ("FY 2017"). Correspondingly, net profit after tax recorded a 1.9% rise to S\$4.3 million.

Earnings per share for FY 2018 dipped slightly to 3.06 cents, from 3.18 cents in FY 2017. Net asset value per share increased from 33.47 cents as at 31 December 2017 to 35.38 cents as at 31 December 2018.

Our balance sheet remained robust with an increase in cash and bank balances to S\$12.2 million as at 31 December 2018, from S\$9.3 million as at 31 December 2017.

Gearing ratio remained low at 0.41 time as at 31 December 2018, notwithstanding increased total borrowings of S\$2.8 million to finance higher sales.

Overall our financial discipline enabled us to maintain a sound and healthy financial condition which put us a strong position to withstand any external adversities.

ASIA REMAINS A BRIGHT SPOT FOR LONG-TERM GROWTH

Where we already have presence in 12 countries, our Asia segment continues to power our growth. Asia has one of the biggest markets for specialty chemicals and we foresee strong long-term growth.

During the year, we further entrenched our market position in Asia with the successful completion of the acquisition of C.M.J. Anchor Co., Ltd, a chemical distributor in Thailand, and further expanded our Asia footprint with the establishment of our presence in Myanmar.

This brings our presence in Asia to nine markets, which is in line with our strategy to grow our presence in this region, a bright spot for the Group.

Looking ahead, the global economy is expected to face continued headwinds which may pose a threat to Megachem's growth momentum, including mounting trade tensions between China and the United States, rising interest rates, volatility in currency and oil prices and overall tepid growth sentiments. External risk factors may also lead to lower demand for chemicals, given the industry's strong correlation with the overall economy. Despite the aforementioned uncertainties, the future presents many opportunities for Megachem.

Megachem distributes a wide range of products across a broad spectrum of industries. Besides our strong customer centricity, we are also committed to enhancing our product offerings within our business model, to suit a wider host of customers.

Supported by our deep expertise within the specialty chemicals industry, extensive geographical reach and strong relationship with both suppliers and customers, we are well-positioned to seize any opportunities that the future may present.

As we continue to make headway in our Asian market, we remain confident in the resilience of our business. Moving ahead, we will continue to ensure financial discipline and operation excellence. Our strategy of providing value added solution through custom-blending services will also be further intensified. We believe that these factors are key to our continued growth, and we will persist at further strengthening the platform for the next wave of growth.

UPHOLDING OUR VALUES AND PRINCIPLES AS WE GROW

At Megachem, we place great significance in good corporate governance practice, including consistent and transparent communication with our shareholders. We all have a responsibility in creating a sustainable business environment, and we at Megachem will endeavour in finding new ways to adopt good sustainability practices.

We are heartened to be recognised for this, having once again been accorded an award at the Singapore Corporate Awards ("SCA") 2018, this time for the Best Managed Board Award (Bronze), in the "less than \$300 million market capitalisation" category. Since the launch of SCA in 2005, Megachem has received at least one award in ten out of the past thirteen years.

REWARDING OUR LOYAL SHAREHOLDERS

In appreciation of our valued shareholders for their unwavering support of Megachem, the Board is pleased to recommend a final dividend of 0.8 cent per share. In addition to the interim dividend of 0.7 cent per share, the collective dividends of 1.5 cents per share represents a payout ratio of 49.0% against FY 2018 net profit.

WORDS OF APPRECIATION

I would like to take the opportunity to express my deepest thanks to our management team, staff, bankers and business associates for their commitment and contribution towards Megachem in the past year, to which Megachem's continued growth would not have been possible. Further, I would like to thank my fellow directors for their guidance

in helping to position Megachem for long-term progress. Last but not least, I would like to extend my gratitude to our loyal shareholders for their support.

We will continue to work hard towards developing a more sustainable specialty chemical business for our customers, while enhancing our shareholders' value.

SIDNEY CHEW

Executive Chairman & Managing Director
Megachem Limited

OUR WORLD OF CHEMISTRY

01

MAKING THE WORLD A BRIGHTER PLACE

PERFORMANCE COATINGS AND POLYMERS

Paints and Inks • Polymerisation • Adhesives
• Construction

04

ENERGISING THE WORLD

OIL AND GAS

Petrochemicals • Lubricants and Grease
• Oil Fields • Refinery

02

NOURISHING OUR WELL-BEING

BIOTECH

Food and Beverages • Pharmaceuticals
• Feeds • Flavours/Fragrances • Agriculture

05

ENABLING TECHNOLOGIES

SURFACE TECHNOLOGY

Electronics • Metal Finishings
• Industrial Cleaning • Water Treatment

03

BRINGING VIBRANCY TO LIFE

LIFESTYLE

Personal Care • Photographic • Textiles

06

DRIVING PERFORMANCE

ADVANCED POLYMER COMPOSITES

Rubber • Plastics • Polyurethane • Polyesters



OUR PROSPECTS

2018: 30 YEARS OF EXCELLENCE

In 2018, Megachem celebrated its 30th Year Anniversary with solid performance, hitting record sales amidst a benign macro-economic conditions, marked by trade tensions, financial markets fragility and fear that the global economic growth may have peaked.

The record sales was achieved on broad-based growth in many of our markets, most significantly in the Asian market as well as across our two main business activities of distribution and custom blending. It demonstrates the robustness of our strategy and our sound business models.

2019: CAUTIOUS OPTIMISM

Looking ahead, the uncertainties we faced in 2018 may persist and hence pose a threat to our growth momentum. Economic and industry indicators are pointing to slower growth in 2019. While the foundation for our growth has been firmly laid, external risk factors may lead to lower demand for chemicals given the industry's close correlation with the overall economy. Rising borrowing cost as well as volatility in currency and oil prices may also weigh on our performance.

POTENTIAL AND POSSIBILITIES

Beyond the short term uncertainties, the future presents many possibilities for us. Backed by our extensive geographic presence and strong customer and supplier base, we are well positioned to seize any opportunities that the future may present and realise our potentials.

Asia: A Bright Spot

Asia remains a bright spot even as we face the prospect of slower global economic growth. The acquisition of a chemical distributor in Thailand and the establishment of a presence in Myanmar in 2018 will further entrench our market position in Asia. With the inclusion of a presence in Myanmar, this brings Megachem's geographic network to twelve countries, nine of which are in Asia.

Product Centricity

Megachem distributes a wide range of products across a broad spectrum of industries. Efforts will be stepped up to enhance product centricity within our business model as we seek to offer a suite of products to our customers.

Customer Centricity

Over the years we have built strong relationships with major chemical producers as well as many multi-national customers. We will continue to foster relationships with key suppliers and customers to lay a stronger platform for next wave of growth.

Integrated Solutions

Our custom blending business is an integral part of our strategy of being an integrated solution provider. With the wider customer base built in recent years, the Group is positioned in good stead to grow this business further.

COMPANY PROFILE



YOUR TOTAL CHEMICAL SOLUTIONS PARTNER

Established in 1988, Megachem has since emerged as a leading chemical player in Singapore and the region. Listed on the Singapore Stock Exchange in 2003, we are today a global one-stop specialty chemical solutions provider, offering integrated value-added services including contract manufacturing tailored to customers' needs as well as distribution of specialty chemicals. We have a global presence and diverse customer base from a wide spectrum of industries. Our technical capabilities, supply chain infrastructure and professional team serve to ensure total customer satisfaction.

COMPANY PROFILE

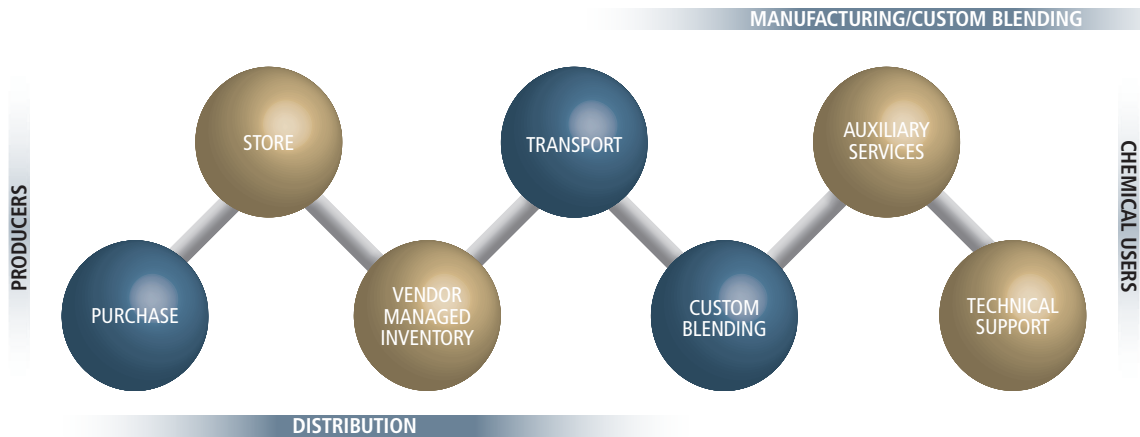
PROVIDING
INTEGRATED
VALUE-ADDED
SOLUTIONS



SERVING YOU
GLOBALLY
WITH ONE-STOP
SUPPLY OF
SPECIALTY
CHEMICALS

A PREMIUM
PROVIDER
OF CHEMICAL
CONTRACT
MANUFACTURING
SERVICES

OUR BUSINESS MODEL



VALUE-ADDING IN THE CHEMICAL SUPPLY CHAIN



- Wide product portfolio – more than 1,000 types and grades of chemicals
- Global Sourcing Network - Europe, US, Japan, China, India
- Global Distribution Network – presence in 12 countries around the world
- Strong customer base – more than 2,000 customers
- Providing Just-in-Time delivery and Vendor-Managed Inventory Service



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

OUR GLOBAL FOOTPRINT

CONNECTING TO THE WORLD OF OPPORTUNITIES

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





WHY MEGACHEM

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

OUR COMPETITIVE STRENGTHS

Integrated Specialty Chemical Solutions Provider

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

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

Superior Manufacturing Capability

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

Extensive Global Network

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

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

Strong Customer Base

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

Outstanding Product Portfolio

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

Quality Supply Source

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

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

Efficient Supply Chain Solutions

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

Sophisticated IT Infrastructure

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

YOUR COMPETITIVE ADVANTAGES

As our Customers

Competitive Product Pricing

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

Process and Operational Cost Efficiency

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



Product Options

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

Optimum Service Level

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

Adding Value Through Contract Manufacturing

Megachem adds further value to your business by providing contract manufacturing services. We can source the raw materials for you, store them in our warehouse, produce the finished products according to your formulations, pack them according to your requirements and deliver them directly to you or your customers. By engaging us as your contract manufacturer, your non-core production is outsourced to us and in so doing reduces your capital expenditure, production and other related costs.

Outsourcing your non-core productions to us also enables you to penetrate key markets in Asia without investing heavily in capital expenditure.

As our Suppliers

Your Partner in Growing your Markets

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

Streamlining your Distribution Channels

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

Reducing your Inventory Cost

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

Market Information Sharing

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

DEFINING MEGACHEM

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

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

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

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

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

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

We are a **PERFORMANCE-DRIVEN** organization

We embrace **CHANGE** to stay relevant.

BOARD OF DIRECTORS



MR SIDNEY CHEW CHOON TEE, AGE 58
Executive Chairman & Managing Director

Date of first appointment as a Director
28 April 1989

Date of last re-election as Director
10 April 2015

Length of service as a director
29 years and 10 months

Country of principal residence
Singapore

Board's comments on the appointment
The re-election of Mr Sidney Chew Choon Tee as Executive Chairman and Managing Director was recommended by the Nominating Committee and approved by the Board, after taking into consideration Mr Sidney Chew Choon Tee's contributions, performance, expertise and past experiences.

In his executive functions, Mr Sidney Chew Choon Tee assumes primary responsibility for managing the Group's operations.

Board committee memberships
Chairman of Executive Committee
Member of Nominating Committee

Academic and professional qualifications
Bachelor of Science in Chemistry (Hons)
Bachelor of Arts, majoring in Business Administration

Working experience and occupations for the past 10 years and principal commitments

Working experience and occupation during last 10 years
Executive Director of Megachem Limited

Principal Commitments (other than directorships)
Present and Past
Nil

Directorships (Present and Past 5 years)

Present other than Megachem Limited
Listed
Megachem (Thailand) PCL

Non-listed
Megachem Manufacturing Pte Ltd
Megachem Raya Pte Ltd
Megachem (Shanghai) Pte Ltd
C.N. Chemicals Sdn. Bhd.
P.T. Mega Kemiraya
Megachem Plus Limited
Megachem Phils., Inc
Megachem International Trading (Shanghai) Co., Ltd
Megachem (UK) Ltd
Megachem Middle East FZE
Megachem Vietnam Company Limited
Megachem Specialty Chemicals (I) Private Limited
MG Chemicals (Australia) Pty Ltd

Past 5 years, listed and non-listed
Nil

Shareholdings (direct and deemed) in the Company (as at 7 March 2019)
46,691,712

By virtue of section 7 of the Companies Act, Chapter 50, Mr Sidney Chew Choon Tee, who by virtue of his interest of not less than 20% shareholding interest in the Company, is deemed to have an interest in the shares held by the Company in all the related corporations of the Company.

Familial relationship with any director and/or substantial shareholder of the Company or of any of its principal subsidiaries
Nil

Conflict of interest (including any competing business)
Nil

BOARD OF DIRECTORS



MR JEFFREY TAN BOCK CHIA, AGE 62
Executive Director

Date of first appointment as a Director
12 September 1988

Date of last re-election as Director
20 April 2018

Length of service as a Director
30 years and 6 months

Country of principal residence
Singapore

Board's comments on the appointment
Not applicable, Mr Jeffrey Tan Bock Chia is not subject to re-election.

Board committee memberships
Member of Executive Committee

Academic and professional qualifications

The Singapore-Cambridge General Certificate of Education Advanced Level (GCE A-Level)

Working experience and occupations for the past 10 years and principal commitments

Working experience and occupation during the last 10 years
Executive Director of Megachem Limited

Principal Commitments (other than directorships)

Present
Honorary Council Member of the Singapore-China Business Association
Member of the School Advisory Committee of River Valley High School

Past
Nil

Directorships (Present and Past 5 years)

Present other than Megachem Limited

Listed
Megachem (Thailand) PCL

Non-listed
Megachem Manufacturing Pte Ltd
Megachem Raya Pte Ltd
Megachem (Shanghai) Pte Ltd
C.N. Chemicals Sdn. Bhd.

P.T. Mega Kemiraya
Megachem Plus Limited
Megachem Phils., Inc
Megachem International Trading (Shanghai) Co., Ltd
Megachem (UK) Ltd
Megachem Middle East FZE
Megachem Vietnam Company Limited
Megachem Specialty Chemicals (I) Private Limited
MG Chemicals (Australia) Pty Ltd

Past 5 years, listed and non-listed
Nil

Shareholdings (direct and deemed) in the Company (as at 7 March 2019)
25,435,083

Familial relationship with any director and/or substantial shareholder of the Company or of any of its principal subsidiaries

Nil

Conflict of interest (including any competing business)

Nil

**MR CHAN KAM LOON, AGED 58**

Lead Independent Director

Date of first appointment as a Director

28 September 2007

Date of appointment as Lead Independent Director

21 February 2011

Date of last re-election as Director

17 April 2017

Length of service as a Director

11 years and 5 months

Country of principal residence

Singapore

Board's comments on the appointment

Not applicable, Mr Chan Kam Loon is not subject to re-election.

Board committee memberships

Chairman of Audit Committee
Member of Nominating Committee
Member of Remuneration Committee

Academic and professional qualifications

Bachelor of Accountancy (Hons) from the London School of Economics
Member of the Institute of Chartered Accountants in England and Wales

Working experience and occupations for the past 10 years and principal commitments

Working experience and occupation during the last 10 years
Director of a management consultancy firm

Principal Commitments (other than directorships)
Present and Past
Nil

Directorships (Present and Past 5 years)

Present other than Megachem Limited
Listed
Hupsteel Ltd

Jiutian Chemical Group Limited
Sarine Technologies Limited
Uni-Asia Group Limited

Non-listed
Nil

Past 5 years

Listed
China Gaoxian Fibre Fabric Holdings Ltd
Vashion Group Ltd
Z-Obee Holdings Ltd

Non-listed
Vision Fund International

Shareholdings (direct and deemed) in the Company (as at 21 January 2019)

Nil

Familial relationship with any director and/or substantial shareholder of the Company or of any of its principal subsidiaries

Nil

Conflict of interest (including any competing business)

Nil

BOARD OF DIRECTORS



MR LEE BON LEONG, JP, PBM, BBM, AGE 72
Independent Director

Date of first appointment as a Director
5 September 2003

Date of last re-election as Director
10 April 2015

Length of service as a Director
15 years and 6 months

Country of principal residence
Singapore

Board's comments on the appointment
The re-election of Mr Lee Bon Leong as Independent Director was recommended by the Nominating Committee and approved by the Board, after taking into consideration Mr Lee Bon Leong's contributions, performance, expertise and past experiences.

Board committee memberships
Chairman of Nominating Committee
Member of Audit Committee
Member of Remuneration Committee

Academic and professional qualifications

Masters of Law from the National University of Singapore
Bachelor of Law (Hons) from the National University of Singapore

Working experience and occupations for the past 10 years and principal commitments

Working experience and occupation during the last 10 years

Practicing lawyer, senior partner of Lee Bon Leong & Co.

Principal Commitments (other than directorships)

Present

Practicing lawyer and consultant to Lee Bon Leong & Co

Chairman of the Home Detention Advisory Committee

Chairman of the Board of Visitors for SCDF & SPF Detention Barracks (DB)

Past

Member of the Panel for the Disciplinary Committee of Enquiry Public Service Commission

Vice-Chairman and Trustee of the Inmates' Families Support Fund

Member of the Singapore Board of Visiting Justices

Member of the Institutional Discipline Advisory/Review Committee (IDAC/IDRC)

Directorships (Present and Past 5 years)

Present other than Megachem Limited

Listed

Ann Aik Limited

Asia Enterprises Holding Ltd

Non-listed

Kien Lee Investment Pte Ltd

King Tower Investment Pte Ltd

Li Lee Investment Pte Ltd

Rectron Investments Pte Ltd

Sing Hup Leong Investment Pte Ltd

Solid Gold Pte Ltd

Past 5 years, listed and non-listed

Nil

Shareholdings (direct and deemed) in the Company (as at 21 January 2019)

100,000

Familial relationship with any director and/or substantial shareholder of the Company or of any of its principal subsidiaries

Nil

Conflict of interest (including any competing business)

Nil



DR TAY KIN BEE, AGE 64
Independent Director

Date of first appointment as a Director
1 July 2013

Date of last re-election as Director
20 April 2018

Country of principal residence
Singapore

Length of service as a Director
5 years and 7 months

Board's comments on the appointment
Not applicable, Dr Tay Kin Bee is not subject to re-election.

Board committee memberships
Chairman of Remuneration Committee
Member of Audit Committee

Academic and professional qualifications

Doctor of Business Administration degree
Master's Degree in Accounting and Finance
Bachelor's Degree of Mechanical Engineering (Hons)

Working experience and occupations for the past 10 years and principal commitments

Working experience and occupation during the last 10 years
Managing Director and CEO of a specialty chemical distribution company

Principal Commitments (other than directorships)
Present
Nil

Past
Managing Director and CEO of a specialty chemical distribution company
Chairman of the Singapore Chemical Industry Council
Deputy Chairman of the Chemical Standards Committee (Singapore Standards Council)
Governing Board Member of the Workplace, Safety and Health Institute
Taskforce Chairman for Globally Harmonized System of Classification and Labelling of Chemicals (Ministry of Manpower)

Directorships (Present and Past 5 years)

Present other than Megachem Limited
Listed
Nil

Non-listed
SPCI Pte Ltd

Past 5 years, listed and non-listed
Nil

Shareholdings (direct and deemed) in the Company (as at 21 January 2019)

Nil

Familial relationship with any director and/or substantial shareholder of the Company or of any of its principal subsidiaries

Nil

Conflict of interest (including any competing business)

Nil

BOARD OF DIRECTORS



MR TATSUYUKI SAKODA, AGE 54

Non-Executive and Non-Independent Director

Date of first appointment as a Director

1 March 2019

Date of last re-election as Director

Not applicable

Length of service as a Director

–

Country of principal residence

Japan

Board's comments on the appointment

The re-election of Mr Tatsuyuki Sakoda as Non-Executive and Non-Independent Director was recommended by the Nominating Committee and approved by the Board, after taking into consideration Mr Tatsuyuki Sakoda's expertise and past experiences.

Board committee memberships

Nil

Academic and professional qualifications

Bachelor of Economics

Working experience and occupations for the past 10 years and principal commitments

Working experience and occupation during the last 10 years

Executive Officer of the Corporate Planning division in Chori Co., Ltd with past experiences in finance, accounting and corporate planning within Chori Co.,Ltd

Principal Commitments (other than directorships)

Present

Executive Officer of Corporate Planning division in Chori Co., Ltd

Past

Key positions in finance, accounting and corporate planning within Chori Co.,Ltd

Directorships (Present and Past 5 years)

Present other than Megachem Limited

Listed

Nil

Non-listed

Chori America, Inc

Chori China Co., Ltd

Chori Korea Co., Ltd

P.T Matsuoka Industries

Past 5 years

Listed

Nil

Non-listed

Chori MODA Co., Ltd

Tokyo Shirayuri Kai Co., Ltd

P.T. Chori Indonesia

Chori Europe Gmbh

Chori Co., Hong Kong

Chori Commercial De Mexico SA De CV

Shareholdings (direct and deemed) in the Company (as at 1 March 2019)

Nil

Familial relationship with any director and/or substantial shareholder of the Company or of any of its principal subsidiaries

An employee and nominee of Chori Co., Ltd, a 29.99% shareholder of Megachem Limited

Conflict of interest (including any competing business)

Nil

SENIOR MANAGEMENT

MR CHAN KHAI LEONG

Group General Manager

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

MR FRANCIS YAU THIAM HWA

Chief Financial Officer

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



MS KWOK HWEI PENG

Group Finance Manager

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

OUR HUMAN CAPITAL

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

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

REWARDS & BENEFITS

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

WELFARE AND WELL-BEING

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

LEARNING AND DEVELOPMENT

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

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

CAREER & LEADERSHIP DEVELOPMENT

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

HIGHER LEARNING EDUCATION SUPPORT

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

STUDENTS AND GRADUATES

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

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



OUR ACHIEVEMENT

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



CORPORATE INFORMATION

BOARD OF DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATING COMMITTEE

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

EXECUTIVE COMMITTEE

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

COMPANY SECRETARIES

Toon Choi Fan
Kwok Hwee Peng

REGISTERED OFFICE

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SHARE REGISTRAR AND SHARE TRANSFER OFFICE

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Partner-in-charge: Woo E-Sah
(with effect from financial year ended 31 December 2017)

INTERNAL AUDITOR

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PRINCIPAL BANKERS

Citibank, N.A.
HSBC
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Standard Chartered Bank
United Overseas Bank Limited

CONTINUING SPONSOR

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Woo Tze Yung
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CORPORATE OFFICES

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

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E-mail: enquiry@vn.megachem.com

MEGACHEM SPECIALTY CHEMICALS (I) PRIVATE LIMITED (FORMERLY KNOWN AS MGI CHEMICALS PRIVATE LIMITED)

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

MG CHEMICALS (AUSTRALIA) PTY LTD

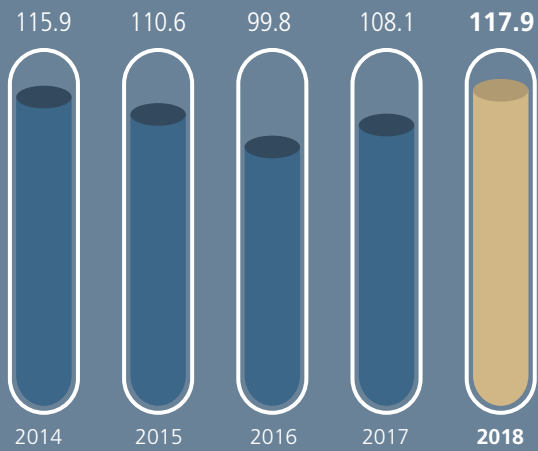
Suite 8, 12 Pascoe Vale Road
Moonee Ponds
Victoria Australia 3039
Tel: +61 03 9326 2882
Fax: +61 03 9375 7886
E-mail: enquiry@au.megachem.com

MEGACHEM (MYANMAR) LIMITED

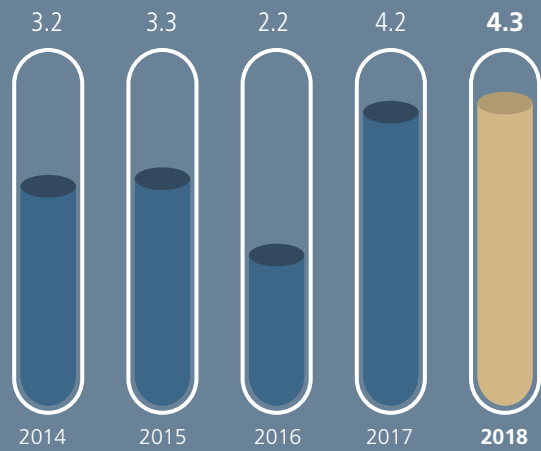
No.302(B), Set Hmu 1st Road,
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Tel: +951 860 4030
e-mail: teresa@megachemmyanmar.com

FINANCIAL HIGHLIGHTS

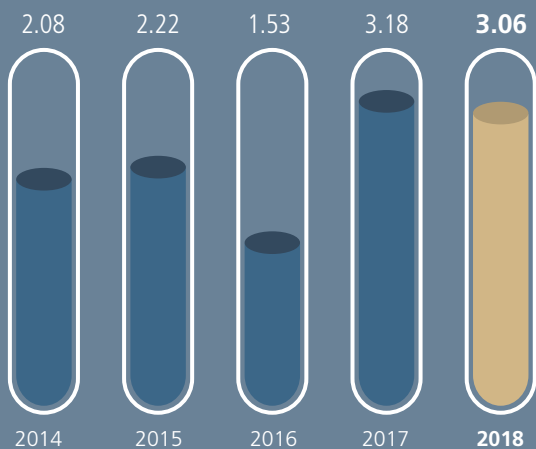
SALES (\$\$'MIL)



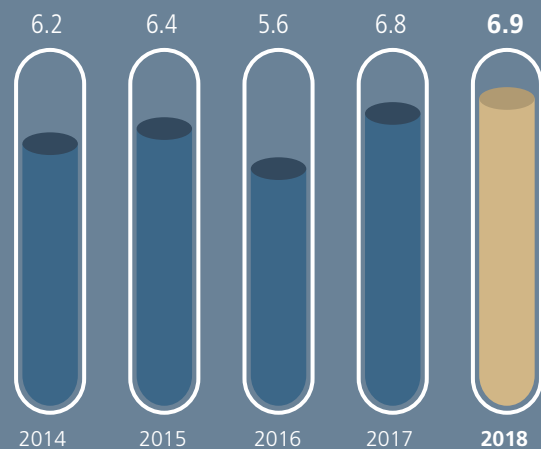
NET PROFIT AFTER TAX & BEFORE NON-CONTROLLING INTERESTS (\$\$'MIL)



EPS (CENTS)



EBITDA (\$\$'MIL)



INCOME STATEMENT	2014	2015	2016	2017	2018
Sales (S\$'mil)	115.9	110.6	99.8	108.1	117.9
Sales Growth (%)	6.7%	-4.6%	-9.8%	8.4%	9.0%
Profit After Tax (S\$'mil)	3.2	3.3	2.2	4.2	4.3
Profit After Tax Growth (%)	14.6%	2.9%	-32.1%	88.1%	1.9%
Profit After Tax Margin (%)	2.8%	3.0%	2.2%	3.9%	3.6%
EBITDA (S\$'mil)	6.2	6.4	5.6	6.8	6.9
EPS (cents)	2.08	2.22	1.53	3.18	3.06
Weighted Average Number of Ordinary Shares (mil)	133.3	133.3	133.3	133.3	133.3
ROE (%)	6.6%	7.0%	4.9%	9.5%	8.7%

HALF-YEAR BREAKDOWN	2014	2015	2016	2017	2018
Sales for first half (S\$'mil)	55.6	57.6	51.3	51.4	59.0
% Growth 1H vs 1H	7.3%	3.5%	-10.9%	0.2%	14.8%
Sales for second half (S\$'mil)	60.3	53.0	48.5	56.7	58.9
% Growth 2H vs 2H	6.1%	-12.1%	-8.5%	17.0%	3.8%
Profit After Tax for first half (S\$'mil)	1.1	1.5	0.9	2.2	2.4
% Growth 1H vs 1H	-24.7%	30.7%	-38.3%	139.1%	8.9%
Profit After Tax for second half (S\$'mil)	2.1	1.8	1.3	2.0	1.9
% Growth 2H vs 2H	61.5%	-12.6%	-26.9%	52.3%	-6.0%

FINANCIAL POSITION	2014	2015	2016	2017	2018
Total Assets (S\$'mil)	83.3	77.7	73.2	79.9	81.7
Shareholders Equity (S\$'mil)	41.9	42.2	42.0	44.6	47.2
Net Asset/Share (cents)	31.45	31.65	31.50	33.47	35.38
Borrowings (S\$'mil)	21.9	18.3	15.3	16.7	19.5
Gearing ratio (times)	0.52	0.43	0.36	0.37	0.41
Cash (S\$'mil)	9.0	11.1	11.6	9.3	12.2
Current ratio (times)	1.74	2.07	2.30	2.06	2.13

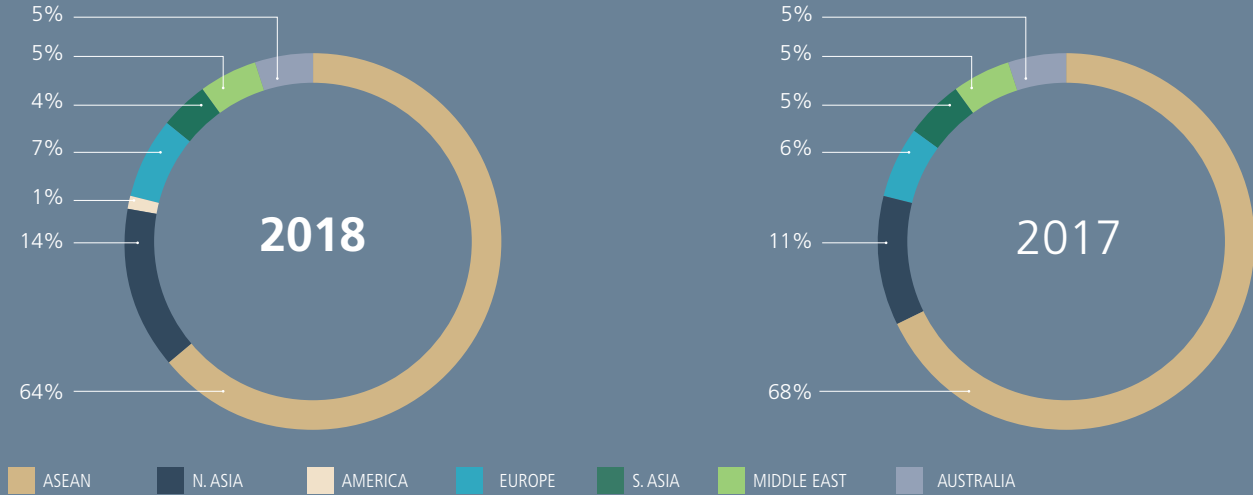
DIVIDEND	2014	2015	2016	2017	2018
Net Dividend/Share (cents)	1.00	1.00	1.20	1.20	1.50
Net Dividend Payout (%)	48.0%	45.1%	78.4%	37.7%	49.0%
Net Dividend Yield (%) ⁽¹⁾	3.0%	2.8%	3.0%	2.8%	4.1%

Note:

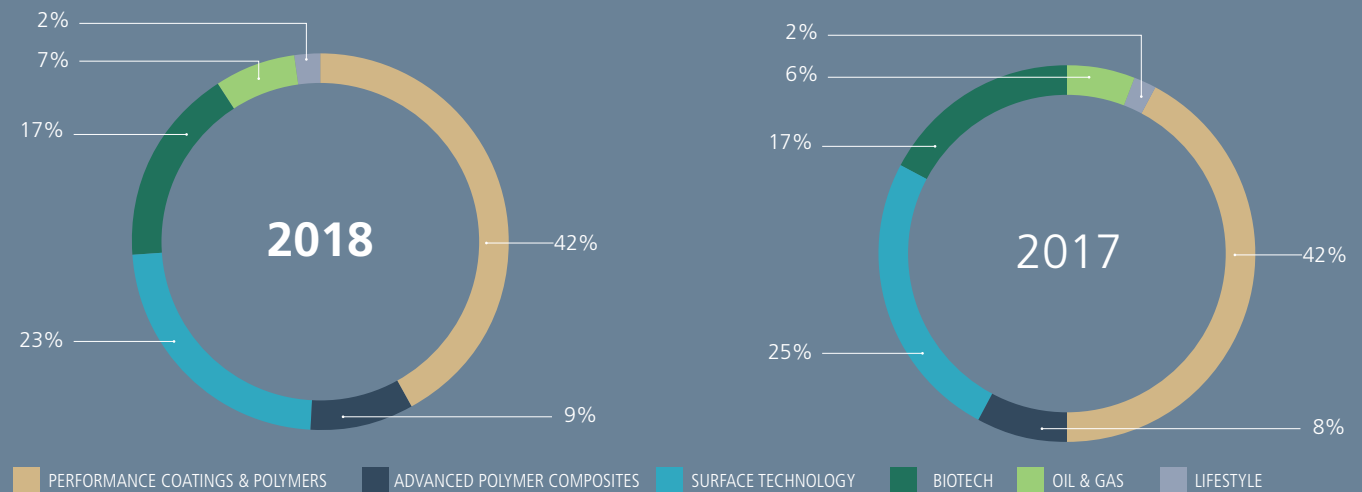
⁽¹⁾ Dividend Yield = Dividend per share/average of beginning and closing prices of the respective financial year.

FINANCIAL HIGHLIGHTS

GLOBAL MARKETS



INDUSTRY COVERAGE



OPERATING AND FINANCIAL REVIEW

1. PROFITABILITY ANALYSIS

SALES

	H2 2017	H1 2018	H2 2018	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000		H2 2018 vs H1 2018		H2 2018 vs H2 2017	
				S\$'000	%	S\$'000	%
ASEAN	37,855	38,132	37,723	(409)	(1.1)	(132)	(0.3)
North Asia	6,519	8,302	7,761	(541)	(6.5)	1,242	19.0
Europe	3,770	3,838	4,514	676	17.6	744	19.7
Middle East	2,986	2,876	3,540	664	23.1	554	18.6
South Asia	2,567	2,494	2,683	189	7.6	116	4.5
Australia	2,685	2,907	2,545	(362)	(12.4)	(140)	(5.2)
America	307	477	86	(391)	(82.1)	(221)	(72.0)
Total	56,689	59,026	58,852	(174)	(0.3)	2,163	3.8

	FY 2017		FY 2018		Variance Fav/(Unfav)	
	S\$'000	%	S\$'000	%	S\$'000	%
ASEAN	73,006	67.5	75,854	64.4	2,848	3.9
North Asia	11,861	11.0	16,063	13.6	4,202	35.4
Europe	6,876	6.4	8,352	7.1	1,476	21.5
Middle East	5,796	5.4	6,417	5.4	621	10.7
Australia	4,944	4.6	5,452	4.6	508	10.3
South Asia	5,011	4.6	5,177	4.4	166	3.3
America	583	0.5	563	0.5	(20)	(3.4)
Africa	25	–	–	–	(25)	(100.0)
Total	108,102	100.0	117,878	100.0	9,776	9.0

OPERATING AND FINANCIAL REVIEW

GEOGRAPHIC SEGMENT SALES ANALYSIS

H2 2018 vs H1 2018

After registering consecutive growth since the first half of 2017, sales to ASEAN, North Asia and Australia markets declined by S\$0.4 million, S\$0.5 million and S\$0.4 million respectively in the second half of 2018 ("H2 2018") vis-à-vis the first half of 2018 ("H1 2018"). Sales to America market was reduced to \$0.1 million in H2 2018 as compared to S\$0.5 million in H1 2018.

On the other hand, sales to Europe markets continued to expand at the growth rate of 17.6% or S\$0.7 million in H2 2018. Similarly, after a marginal dip in sales in H1 2018, sales to Middle East and South Asia markets picked up by S\$0.7 million or 23.1% and S\$0.2 million or 7.6% respectively.

As a result of mix performance across the markets, total sales of S\$58.9 million for H2 2018 was almost flat vis-à-vis H1 2018.

H2 2018 vs H2 2017

As compared to the second half of 2017 ("H2 2017"), the increase in total sales of S\$2.2 million or 3.8% was led by notable strong growth of approximately 19% to 20% from the North Asia, Europe and Middle East markets.

This was partly offset by marginally lower sales in ASEAN and Australia markets of S\$0.1 million each and a reduction in sales of S\$0.2 million or 72.0% to the America market.

FY 2018 vs FY 2017

Supported by broad based growth across most of the major markets, sales for the full year of 2018 ("FY 2018") increased by S\$9.8 million or 9.0% to S\$117.9 million as compared to full year of 2017 ("FY 2017").

Year-on-year, North Asia recorded the fastest growth with an increase in sales of S\$4.2 million or 35.4%. This was followed by ASEAN and Europe markets which grew by S\$2.8 million or 3.9% and S\$1.5 million or 21.5% respectively.

While Australia and Middle East markets also perform better with an increase in sales of S\$0.5 million or 10.3% and S\$0.6 million or 10.7% respectively, sales to South Asia improved marginally by S\$0.2 million or 3.3%.

BUSINESS ACTIVITY SEGMENT SALES BREAKDOWN

	H2 2017	H1 2018	H2 2018	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000		H2 2018 vs H1 2018		H2 2018 vs H2 2017	
				S\$'000	%	S\$'000	%
Distribution activity	55,273	57,278	56,875	(403)	(0.7)	1,602	2.9
Manufacturing activity	1,416	1,748	1,977	229	13.1	561	39.5
Total Sales	56,689	59,026	58,852	(174)	(0.3)	2,163	3.8

	FY 2017	FY 2018	Variance Fav/(Unfav)	
	S\$'000		S\$'000	%
Distribution activity	105,466	114,153	8,687	8.2
Manufacturing activity	2,636	3,725	1,089	41.3
Total Sales	108,102	117,878	9,776	9.0

H2 2018 vs H1 2018**H2 2018 vs H2 2017**

Sales from distribution segment declined marginally by S\$0.4 million or 0.7% in H2 2018 over H1 2018 and was the main cause for the overall decrease in sales in H2 2018. As compared to H2 2017, sales for H2 2018 grew steadily by S\$1.6 million or 2.9%.

Sales from the contract manufacturing segment continued to expand in H2 2018 to achieve S\$2.0 million for H2 2018. This represented an increase of S\$0.2 million or 13.1% as compared to H1 2018 and S\$0.6 million or 39.5% improvement vis-à-vis H2 2017.

FY 2018 vs FY 2017

Year-on-year, sales from distribution segment increased by S\$8.7 million or 8.2% due to broad based growth across most major markets while sales from manufacturing segment improved considerable by S\$1.1 million or 41.3%.

GROSS PROFIT**H2 2018 vs H1 2018**

Gross profit margin for H2 2018 decreased by 0.7%-point as compared to H1 2018 partly due to higher inventory write down and partly because of lower gross profit margins across major markets such as ASEAN, Europe and Middle East.

Dampened by lower sales achieved in H2 2018, gross profit decreased marginally by S\$0.4 million or 2.9% over H1 2018.

H2 2018 vs H2 2017

Although gross profit margin for H2 2018 (24.6%) was relatively unchanged as compared to H2 2017 (25.0%), gross profit increased by S\$0.4 million or 2.6% as a results of higher sales achieved.

FY 2018 vs FY 2017

Due to lower inventory write down in the current year and lower depreciation of plant and machinery used in contract manufacturing as assets were almost fully depreciated by end of first half of 2017, gross profit margin for FY 2018 improved by 0.4%-point year-on-year. Coupled with higher sales in FY 2018, gross profit increased by S\$2.8 million or 10.7% vis-à-vis FY 2017.

OTHER INCOME

			H2 2018	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	H2 2017	H1 2018		H2 2018 vs H1 2018		H2 2018 vs H2 2017	
	S\$'000	S\$'000		S\$'000	%	S\$'000	%
Bad debt recovered	17	41	73	32	78.3	56	320.0
Change in fair value of financial assets at fair value through profit or loss							
- forward foreign exchange contracts	(17)	142	(97)	(239)	(168.2)	(80)	(461.7)
- listed equity security	360	-	-	-	-	(360)	(100.0)
Grant income	14	78	-	(78)	(100.0)	(14)	(100.0)
Gain on disposal of plant and equipment	10	45	-	(45)	(100.0)	(10)	(100.0)
Interest income	46	43	79	36	82.2	33	73.9

OPERATING AND FINANCIAL REVIEW

	FY 2017	FY 2018	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Bad debt recovered	82	113	31	38.0
Change in fair value of financial assets at fair value through profit or loss				
– forward foreign exchange contracts	2	45	43	NM
– listed equity security	430	–	(430)	(100.0)
Gain on dilution of interests in associated companies	1,839	–	(1,839)	(100.0)
Grant income	45	78	33	72.9

NM: not meaningful

H2 2018 vs H1 2018

Other income in H2 2018 decreased by S\$0.3 million or 82.0% and this was primarily due to partial reversal of fair value gain from forward exchange contracts recorded in H1 2018. Grant income and gain on disposal of plant and equipment recorded in H1 2018 did not recur in H2 2018.

The decline was partly offset by higher bad debt recovered and higher interest income.

H2 2018 vs H2 2017

Due to the absence of S\$0.4 million fair value gain from listed equity, other income decreased by S\$0.4 million or 85.3% as compared to H2 2017. Fair value loss from listed equity in H2 2018 was recorded under operating expenses.

FY 2018 vs FY 2017

Year-on-year, other income decreased by S\$2.1 million or 83.4%. This was due to the absence of one-time valuation gain of S\$1.8 million arising from the listing of our associated company in the stock exchange in Thailand in 2017 and fair value gain from listed equity of S\$0.4 million. Fair value loss from listed equity of S\$0.2 million for this year was recorded under operating expenses.

The decline was partially offset by higher bad debt recovered, higher grant income and higher fair value gain from forward foreign exchange contracts.

OPERATING EXPENSES

H2 2018 vs H1 2018

H2 2018 vs H2 2017

				Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	H2 2017	H1 2018	H2 2018	H2 2018 vs H1 2018		H2 2018 vs H2 2017	
	S\$'000	S\$'000	S\$'000	S\$'000	%	S\$'000	%
Change in fair value of financial assets at fair value through profit or loss							
– listed equity security	–	200	40	160	80.0	(40)	(100.0)
Employee remuneration and related expenses	6,713	7,170	7,269	(99)	(1.4)	(557)	(8.3)
Impairment of trade receivables	127	153	185	(32)	(21.3)	(58)	(45.7)
Net foreign exchange loss	470	537	211	326	60.6	269	55.0
Travelling and transport	602	519	538	(19)	(3.9)	64	10.6
Rental	1,360	1,333	1,483	(150)	(11.3)	(123)	(9.1)

Total operating expenses of S\$12.2 million incurred in H2 2018 were marginally lower by S\$0.1 million or 0.7% vis-à-vis H1 2018. The main reason for the decrease was because of lower net foreign exchange loss incurred in H2 2018 of S\$0.2 million as compared to S\$0.5 million in H1 2018.

The decline was partially offset by (i) higher rental expenses of S\$0.2 million and (ii) higher staff costs of S\$0.1 million.

As compared to H2 2017, the total operating expenses increased slightly by S\$0.4 million or 3.2%. Similarly, both staff costs and rental expenses were higher in H2 2018 by S\$0.6 million and S\$0.1 million respectively over H2 2017.

FY 2018 vs FY 2017

	FY 2017	FY 2018	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Change in fair value of financial assets at fair value through profit or loss				
- listed equity security	–	240	(240)	(100.0)
Employee remuneration and related expenses	13,399	14,439	(1,040)	(7.8)
Impairment of trade receivables	1,382	338	1,044	75.5
Net foreign exchange loss	825	748	77	9.3
Rental	2,643	2,816	(173)	(6.6)

OPERATING AND FINANCIAL REVIEW

Higher staff costs and rental expenses and fair value loss on listed equity were the main reasons that led to the increase in total operating expenses in FY 2018.

Higher staff costs were within expectation while higher rental expenses were in line with higher purchases during the year.

The increase was partially offset by lower allowance for impairment of trade receivables, which fell by S\$1.0 million or 75.5% primarily because of allowance for impairment of receivables from Venezuela made last year.

As a result, the total operating expenses increased marginally by S\$0.3 million or 1.1% to S\$24.5 million year-on-year.

FINANCE COSTS

Finance costs comprised the following:

				Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	H2 2017	H1 2018	H2 2018	H2 2018 vs H1 2018		H2 2018 vs H2 2017	
	S\$'000	S\$'000	S\$'000	S\$'000	%	S\$'000	%
Bills payables	172	231	262	(31)	(13.3)	(90)	(52.2)
Bank loans	116	118	139	(21)	(18.6)	(23)	(20.8)
Total finance costs	288	349	401	(52)	(15.0)	(113)	(39.6)

	FY 2017	FY 2018	Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	%
Bills payables	302	493	(191)	(63.2)
Bank loans	231	257	(26)	(11.6)
Total finance costs	533	750	(217)	(40.8)

H2 2018 vs H1 2018

H2 2018 vs H2 2017

As compared to H1 2018 and H2 2017, total finance costs for H2 2018 increased by S\$52,000 and S\$0.1 million respectively due to higher interest rates and an increase in borrowings.

FY 2018 vs FY 2017

For same reasons noted above, total finance costs increased by S\$0.2 million or 40.8% year-on-year.

SHARE OF PROFIT OF ASSOCIATED COMPANIES

H2 2018 vs H1 2018

H2 2018 vs H2 2017

Our share of profit of associated companies was flat at S\$0.4 million for H2 2018, H1 2018 and to H2 2017.

FY 2018 vs FY 2017

Year-on-year, our share of profit of associated companies remained relatively unchanged at S\$0.8 million as the higher profit recorded by the chemical distribution business was eroded by higher losses incurred by natural latex pillow manufacturing business.

PROFIT BEFORE INCOME TAX**H2 2018 vs H1 2018****H2 2018 vs H2 2017**

Net profit before tax decreased by S\$0.7 million or 22.5% vis-à-vis H1 2018. This was mainly due to lower gross profit of S\$0.4 million and lower other income of S\$0.3 million, which resulted mainly from the change in fair value gain from forward exchange contracts.

Similarly, net profit before tax decreased by S\$0.5 million or 18.1% as compared to H2 2017. The higher total operating expenses and finance costs of S\$0.5 million and the reduction in other income of S\$0.4 million more than offset the increase in gross profit of S\$0.4 million.

FY 2018 vs FY 2017

Net profit before tax improved marginally by S\$0.2 million or 3.3% year-on-year. Despite an increase in gross profit of S\$2.8 million, the absence of one-time valuation gain of S\$1.8 million arising from the listing of our associated company and changes in fair value of listed equity of S\$0.7 million reduced most of the increase.

Excluding the change in fair value of listed equity, one-time valuation gain arising from the listing of our associated company and further adjusting for allowance for impairment of trade receivables from Venezuela in FY 2017, net profit before tax for FY 2018 would be higher by S\$1.5 million or 36.3% vis-à-vis last year.

Similarly, EBITDA of S\$6.9 million for FY 2018 was also slightly better by S\$0.1 million or 1.7% as compared to S\$6.8 million in FY 2017. EBITDA would have increased by S\$1.4 million or 25.1% if the above same exclusions were considered.

NET PROFIT AFTER TAX**H2 2018 vs H1 2018****H2 2018 vs H2 2017**

In line with lower net profit before tax achieved for H2 2018, net profit after tax decreased by S\$0.5 million or 21.8% and S\$0.1 million or 6.0% respectively vis-à-vis H1 2018 and H2 2017.

FY 2018 vs FY 2017

Corresponding to higher profit before tax, net profit after tax increased by a smaller magnitude of S\$0.1 million or 1.9%.

TOTAL COMPREHENSIVE INCOME**H2 2018 vs H1 2018****H2 2018 vs H2 2017**

The translation gains recorded for H1 2018 and H2 2017 of S\$0.5 million and S\$0.3 million respectively were largely due to the appreciation of Malaysian Ringgit during these periods. However, the trend started to reverse in H2 2018, resulting in S\$0.2 million translation losses incurred H2 2018.

As a result, comprehensive income for H2 2018 of S\$1.7 million decreased by S\$1.2 million or 72.7% and S\$0.6 or 26.1% as compared to comprehensive income of S\$2.9 million for H1 2018 and S\$2.3 million for H2 2017 respectively.

FY 2018 vs FY 2017

For the full year of 2018, translation gains of S\$0.3 million, arising mainly from the appreciation of Thai Baht and United States Dollar, was recorded as opposed to translation losses of S\$0.1 million incurred in the previous year. This contributed to the increase in comprehensive income of S\$0.5 million or 13.1% over FY 2017.

OPERATING AND FINANCIAL REVIEW

2. BALANCE SHEET ANALYSIS

Balance Sheet Highlights	As at		Variance
	31 December 2017	31 December 2018	31 December 2018 vs 31 December 2017 Fav/(Unfav)
Cash (S\$'mil)	9.3	12.2	2.9
Borrowings (S\$'mil)	16.7	19.5	(2.8)
Current ratio (times)	2.1	2.1	–
Gearing ratio (times)	0.37	0.41	(0.04)
Net assets per share attributable to equity holders of the Company (cents)	33.47	35.38	1.91
Inventory turnover (days)	115	118	(3)
Trade receivables turnover (days)	93	84	9
Trade payable turnover (days)	34	35	1

Property, plant and equipment

There was no significant change in the carrying value of property, plant and equipment as at 31 December 2018 and 31 December 2017. Capital expenditure of S\$0.7 million for motor vehicles and computer was offset by depreciation charge of S\$0.9 million in the current year.

Investment in associated companies

The increase in carrying value of our associated companies by S\$0.2 million or 4.3% was mainly due to positive contribution from operation for the current year of S\$0.8 million and translation gain of S\$0.1 million offset by dividend return of S\$0.7 million.

Deferred tax assets

There was no significant change in the carrying value of deferred tax assets as at 31 December 2018 and 31 December 2017.

Trade and other receivables

Net third party trade receivables decreased by S\$3.6 million or 13.2% from S\$27.1 million as at 31 December 2017 to S\$23.5 million as at 31 December 2018. The reduction was because of slower sales towards the end of FY 2018.

As such, turnover days for FY 2018 improved to 84 days from 93 days in FY 2017.

Inventories

Inventories increased by S\$2.2 million or 9.1% from S\$23.9 million as at 31 December 2017 to S\$26.1 million as at 31 December 2018. This was in line with steady sales growth in FY 2018. Inventory turnover days increased to 118 days as compared to 115 days for the full year of 2017.

Other current assets

Other current assets increased by S\$0.5 million to S\$2.1 million as compared S\$1.6 million as at 31 December 2017 mainly due to S\$0.4 million higher advance payments to suppliers for inventory purchase.

Financial assets and financial liabilities at fair value through profit or loss

The decrease in financial assets at fair value through profit or loss was mainly due to negative fair value loss of S\$0.2 million in listed equity offset by an increase in fair value gain of forward contracts of S\$42,000.

Financial liabilities at fair value through profit or loss were not significant as at 31 December 2018 and 31 December 2017.

Trade and other payables

Total trade payables decreased by S\$2.4 million or 27.0% from S\$9.0 million as at 31 December 2017 to S\$6.6 million at 31 December 2018 as more inventory purchases were financed through bank borrowings.

Turnover days for FY 2018 and FY 2017 were relatively unchanged.

Other payables in aggregate consisting of accrued operating expenses, advance payments from customer and sundry payables decreased by S\$1.1 million from S\$6.6 million as at 31 December 2017 to S\$5.5 million as at 31 December 2018. This was primarily due to lower advance payments from customers and repayment of amount due to director of S\$0.2 million offset by higher accrued operating expenses of S\$0.4 million.

Borrowings

Total borrowings increased by S\$2.8 million or 16.9% as S\$3.6 million additional trade borrowings were utilised to finance higher sales and higher inventory purchases in the current year. On the other hand, long term bank loans of S\$0.8 million were also repaid during the current year.

In line with higher borrowings, our gearing ratio increased marginally from 0.37 times as at 31 December 2017 to 0.41 times as at 31 December 2018.

Net asset value

Net asset value per share increased from 33.47 cents as at 31 December 2017 to 35.38 cents as at 31 December 2018 primarily due to total comprehensive income for the current year of S\$4.4 million offset by dividend payment to shareholders of S\$1.9 million.

3. CASHFLOW

As a result of higher sales, positive cash flows from operating activities of S\$2.6 million were generated. This was almost adequate to satisfy cash obligations such as capital expenditure, dividend payments and long term bank loans repayments.

As a result of additional trade borrowings to fund inventory purchases, overall cash and cash equivalents increased by S\$2.9 million from S\$9.3 million as at 31 December 2017 to S\$12.2 million as at 31 December 2018.

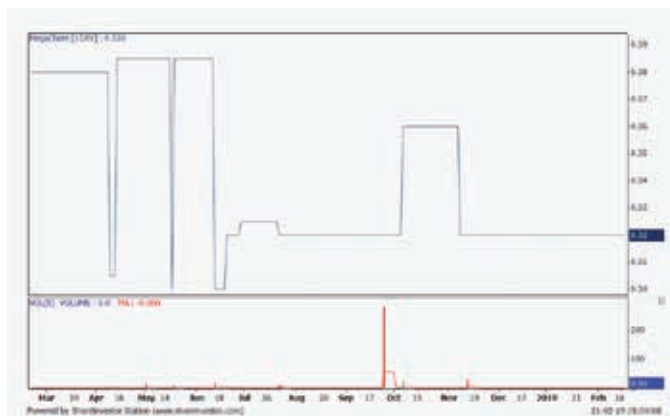
SHARE INFORMATION

(AS AT 21 FEBRUARY 2019)

Listing Date	17 October 2003
IPO Price	28 cents
Historical High	68 cents
Historical Low	13 cents
52 weeks High	39 cents
52 weeks Low	30 cents
Price (as at 21 Feb 2019)	32 cents

No of Shares	133,300,000
Earnings per share FY 2018	3.06 cents
Historical P/E	10.5 x
Market Capitalisation	\$42.7 mil
NTA/share	35.38 cents
Price/Book Ratio	0.90

MEGACHEM



MEGACHEM VS ST ALL SHARES & ST CATALIST



Note:

(a) P/E = price as at 21 February 2019/EPS FY18

DIVIDEND

DIVIDEND

	2014	2015	2016	2017	2018
Average price for the period (cents)*	33.0	36.0	40.0	42.5	36.5
Dividend/share (cents) – net	1.0	1.0	1.2	1.2	1.5
Dividend payout (%) – net	48.0%	45.1%	78.4%	37.7%	49.0%
Dividend Yield (%) – net**	3.0%	2.8%	3.0%	2.8%	4.1%

Interim Dividend Paid : 0.7 cts

Final Dividend Proposed : 0.8 cts

Total FY 2018 Dividend : 1.5 cts

Final dividend for FY 2018 is subject to shareholders' approval at the forth coming annual general meeting.

* Average price is the average of 31 December 2017 closing price of 41 cents/share and 31 December 2018 closing price of 32 cents/share.

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

DIVIDEND POLICY

In its consideration for dividend payment, the Company takes into account, among other factors, current cash position, future cash needs, profitability, retained earnings and business outlook. The Company takes the view that committing to a fixed dividend policy may jeopardise its financial position in times of adverse changes in market conditions. Hence it does not disclose a dividend policy to its shareholders. Nevertheless, it has been making dividend payments every year since its initial public listing.

YEAR IN REVIEW

FEBRUARY 2018

Megachem net profit grew by 88.1% to S\$4.2 million for FY 2017 on the back of a 8.4% increase in revenue to S\$108.1 million. A final tax exempt dividend of 0.7 cent per share was proposed for FY 2017 which was subsequently approved by shareholders at its annual general meeting held in April 2018. In addition to the interim dividend of 0.5 cents per share, the collective dividends of 1.2 cents per share represents a payout ratio of 37.7% against FY 2017 net profit.

MAY 2018

Megachem's associated company, Megachem (Thailand) Public Company Limited ("Megachem Thailand"), announced its decision to incorporate a 80%-owned subsidiary ("Newco") for obtaining an entire business transfer of a chemical distribution company, C.M.J Anchor Co., Ltd ("CMJ") including its assets, liabilities, other agreements, employees, licenses and rights to business operation of CMJ and the land on which CMJ's office is located (the "Proposed Acquisition").

Upon completion of the Proposed Acquisition, Megachem will effectively have an indirect equity interest of approximately 28.95% in the Newco.

A final tax exempt dividend of 0.7 cent per share for the financial year ended 31 December 2017 was paid.

JULY 2018

As part of the Proposed Acquisition stated above, Megachem Thailand incorporated Megachem Plus Limited, referred to as Newco in the earlier announcement, with an initial registered capital of Baht 155,000,000. Megachem, through its 36.19% shareholding in Megachem Thailand, has an indirect equity interest of approximately 28.95% in Megachem Plus Limited.

Megachem Thailand incorporated a joint venture known as Megachem (Myanmar) Limited ("Megachem Myanmar") in Myanmar with a direct equity interest of 51%. The balance 49% equity interest is held by Prime Index Co., Ltd.

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

OCTOBER 2018

As part of the Proposed Acquisition, the transfer of land from Mr. Pichan Mahachanok to Megachem Plus Limited has also been completed, resulting in the completion of the Proposed Acquisition.

NOVEMBER 2018

MGI Chemicals Private Limited ("MGI"), a wholly-owned subsidiary, changed its name to Megachem Specialty Chemicals (I) Private Limited.

FEB 2018

APR

MAY

JUL

AUG

OCT

NOV

FEB 2019

APRIL 2018

Megachem increased its investment in the issued and paid up capital of MGI Chemicals Private Limited ("MGI"), a wholly-owned subsidiary incorporated in India, by Indian Rupees 28,800,000 by way of subscription of 1,200,000 new ordinary shares for a cash consideration of Indian Rupees 24 per share. Following the aforesaid subscription, MGI remains a wholly-owned subsidiary of the Company.

Annual General Meeting for FY 2017.

AUGUST 2018

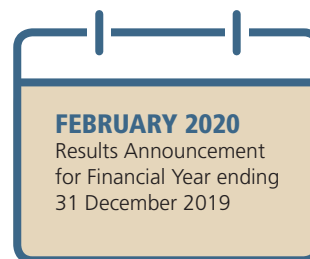
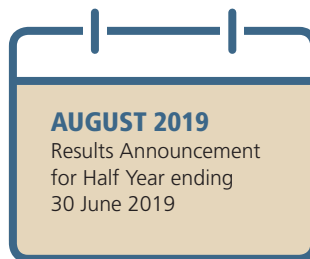
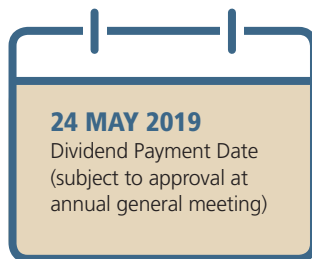
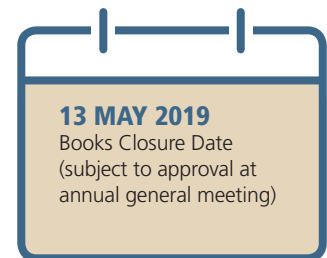
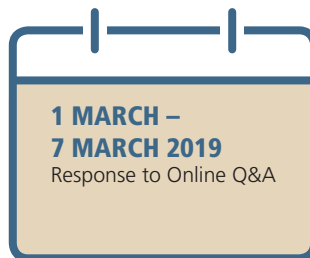
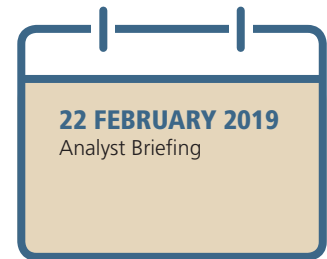
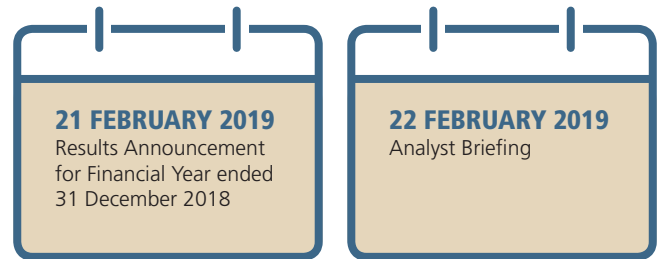
Megachem achieved 14.8% growth in revenue to S\$59.0 million and net profit after tax improved by 8.9% to S\$2.4 million. An interim tax exempt dividend of 0.7 cent per share was declared.

As part of the Proposed Acquisition, the registered capital of Megachem Plus Limited of Baht 155,000,000 was fully paid up and the business transfer from CMJ to Megachem Plus Limited has been completed.

FEBRUARY 2019

Led by broad-based growth across major markets and the Group's manufacturing segment, Megachem achieved 9.0% growth in sales to a record S\$117.9 million and net profit after tax up 1.9% to S\$4.3 million in FY 2018. A final tax exempt dividend of 0.8 cent per share was proposed for FY 2018 (subject to approval by shareholders at its forthcoming annual general meeting). If the final dividend is approved, the collective dividends for FY 2018 would be 1.5 cents per share (that includes the interim dividend of 0.7 cents per share) which represent a payout ratio of 49.0% against FY2018 net profit.

FINANCIAL CALENDAR



CORPORATE GOVERNANCE REPORT



CORPORATE GOVERNANCE REPORT



MEGACHEM CLINCHED ITS SECOND WIN FOR BEST MANAGED BOARD AWARD (“BRONZE”) IN THE “LESS THAN \$300 MILLION MARKET CAPITALISATION” CATEGORY AT THE SINGAPORE CORPORATE AWARDS IN 2018.

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

THE DIRECTORS AND MANAGEMENT STRONGLY SUPPORT THE PRINCIPLES OF TRANSPARENCY, ACCOUNTABILITY AND INTEGRITY AS SET OUT IN THE CODE OF CORPORATE GOVERNANCE 2012 (THE “CODE”). THIS REPORT DESCRIBES THE COMPANY’S CORPORATE GOVERNANCE POLICIES AND PRACTICES WHICH WERE IN PLACE DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (“FY 2018”). THE MONETARY AUTHORITY OF SINGAPORE (MAS) HAS ISSUED A REVISED CODE OF CORPORATE GOVERNANCE ON 6 AUGUST 2018 (THE “REVISED CODE”) THAT APPLIES TO ANNUAL REPORTS COVERING FINANCIAL YEARS COMMENCING FROM 1 JANUARY 2019. ACCORDINGLY, THE COMPANY WILL ADOPT THE REVISED CODE FOR ITS FINANCIAL YEAR ENDING 31 DECEMBER 2019 (FY 2019).

BOARD MATTERS

The Board’s Conduct of its Affairs

Principle 1

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

1.1 The Board’s role is to:

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

CORPORATE GOVERNANCE REPORT

- (g) review financial plans including any investments and divestments;
 - (h) approve the release of the financial results, annual reports and announcements of the Group to shareholders;
 - (i) ensure the Group complies with laws, regulations, policies, directives, guidelines and internal code of conduct;
 - (j) review and approve the recommended remuneration framework and packages for the Board and key management personnel;
 - (k) review the performance of the Board, set the criteria for selection of directors and to nominate directors for shareholders' approval; and
 - (l) ensure communication with shareholders are accurate, adequate and timely.
- 1.2 All directors recognize that they have to discharge their duties and responsibilities at all times as fiduciaries in the interests of the Company. The Board is a representation of the shareholders in the Company and is accountable to them through effective governance of the business.
- 1.3 To assist the Board in the execution of its responsibilities, the Board has constituted various Board committees, namely the Audit Committee, Remuneration Committee, Nominating Committee and the Executive Committee. The role and function of each committee is described in subsequent sections in this report. While these committees are delegated with certain responsibilities, the ultimate responsibility for the final decision lies with the entire Board.
- 1.4 The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings will be convened when circumstances require.
- The Company's Constitution permits directors to attend meetings by way of telephonic and videoconference meetings.
- Details relating to the number of Board and committee meetings and the attendance of the directors are disclosed in this Report.
- 1.5 The Board has adopted a set of guidelines on matters that require its approval. Matters which are specially reserved for the Board's approval include those involving business plans and budgets, investments, material acquisitions and disposals of assets, corporate or financial restructuring, corporate strategy, share issuances, dividends, and other returns to shareholders.
- 1.6 All newly appointed directors would be provided an induction program on his duties as a director and how to discharge those duties. Briefings would also be provided by management on the Group's history, business operations and corporate governance practices.
- The Group has a director training policy that requires any newly appointed directors with no prior experience as a listed company's director to attend relevant directorship courses, such as directorship courses from the Singapore Institute of Directors within 1 year from date of appointment. The Company would also provide existing directors to attend seminars and trainings to enable them to keep pace with changes of regulatory and financial reporting standards that have a material bearing on the Company and its industry. In FY 2018, the directors attended briefings by our external auditors and sponsor on new financial reporting standards and key changes to the Code respectively.
- 1.7 All Board committees are constituted with clear Terms of Reference to assist the Board in discharging its functions and responsibilities. The Terms of Reference are provided to each newly-appointed director.

BOARD COMPOSITION AND GUIDANCE

Principle 2

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

Board Committees

Name	Designation	Audit Committee	Nominating Committee	Remuneration Committee	Executive Committee
Mr Sidney Chew Choon Tee	Chairman & Managing Director		Member		Chairman
Mr Jeffrey Tan Bock Chia	Executive Director				Member
Mr Chan Kam Loon	Lead Independent Director	Chairman	Member	Member	
Mr Lee Bon Leong	Independent Director	Member	Chairman	Member	
Dr Tay Kin Bee	Independent Director	Member		Chairman	
Mr Tatsuyuki Sakoda (appointed with effect from 1 March 2019) ⁽¹⁾	Non-executive Director				
Mr Francis Yau Thiam Hwa	Chief Financial Officer				Member
Mr Chan Khai Leong	Group General Manager				Member
Ms Kwok Hwee Peng	Group Finance Manager & Company Secretary				Member

(1) Mr Tatsuyuki Sakoda

Mr Tatsuyuki Sakoda was appointed to the Board on 1 March 2019 as a nominee of the Company's controlling shareholder, Chori Co., Ltd. Mr Tatsuyuki Sakoda has replaced Mr Toshiyuki Yokogawa that stepped down from his role as a Non-executive Director on 1 March 2019.

- 2.1 The Board currently comprises six directors of whom three are independent non-executive directors. As independent non-executive directors make up half of the Board, the Board is able to exercise objective judgement independently from management and no individual or small group of individuals dominate the decisions of the Board. Each independent director is required to complete a Director's Independence Form annually to confirm his independence.
- 2.2 As the Chairman of the Board and the Chief Executive Officer/Managing Director of the Group is the same person and is also part of the management, half of the Board is now made up of independent directors.
- 2.3 The Board of Directors currently comprises:

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

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

CORPORATE GOVERNANCE REPORT

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

After due consideration and careful assessment, the Nominating Committee and the Board are of the view that both directors have during their tenure acted independently in the best interest of Company. Mr Lee and Mr Chan continue to demonstrate the essential characteristics of independence expected by the Board and in-depth knowledge of the Group’s business. Furthermore, Mr Lee’s legal expertise and Mr Chan’s experience in accounting and finance contribute greatly to the effectiveness of the Board and matters relating to the strategic direction and corporate governance of the Group. Therefore, the Nominating Committee and the Board is satisfied that there is no existence of any relationship that could interfere with the exercise of the directors’ independent business judgement.

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR

Principle 3

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

- 3.1 Mr Sidney Chew Choon Tee is currently the Executive Chairman of the Board and also the Managing Director of the Company. The Board is of the view that accountability and independence have not been compromised despite the Chairman and Managing Director being the same person. The Chairman and Managing Director have defined responsibilities which, during his tenure so far, have not conflicted with each other. Major business proposals are discussed at Board meetings before decisions are made. The Board believes there is sufficient element of independence and adequate safeguards against a concentration of power in one single person.
- 3.2 The Chairman is responsible to, among others:–
- (a) lead the Board to ensure its effectiveness on all aspects of its role;
 - (b) set the agenda and ensure that adequate time is available for discussion of all agenda items, in particular strategic issues;
 - (c) promote a culture of openness and debate at the Board;
 - (d) ensure that the directors receive complete, adequate and timely information;
 - (e) ensure effective communication with shareholders;

- (f) encourage constructive relations within the Board and between the Board and management;
- (g) facilitate the effective contribution of non-executive directors in particular; and
- (h) promote high standards of corporate governance.

3.3 The Board has appointed Mr Chan Kam Loon as the Lead Independent Director and is of the view that there is sufficiently strong independent element on the Board to enable the independent exercise of objective judgement on corporate affairs of the Group by members of the Board, taking into account factors such as the number of independent directors on the Board, as well as the size and scope of the affairs and operations of the Group.

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

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

BOARD MEMBERSHIP

Principle 4

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

Nominating Committee

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

The Nominating Committee comprises:-

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

Pursuant to the Constitution of the Company:–

- (a) one third of the directors shall retire from office by rotation at each Annual General Meeting; and
 - (b) provided that all directors shall retire from office at least once every 3 years but shall be eligible for re-election.
- 4.3 The Nominating Committee's assessment of the independence of a director is guided by the Code and takes into account factors such as relationship with the Company, its related corporations, its 10% shareholders or its officers and whether these relationships interfere with his business judgement.
- 4.4 The Nominating Committee is of the view that despite some of the directors having other Board representations as described below, there are currently no compelling reasons to impose a cap on the number of board representations each director may hold since these directors are able to and have adequately carried out their duties as directors of the Company. Board meetings are planned and scheduled well in advance of the meeting dates.
- 4.5 The Board provides for appointment of alternate director only in exceptional cases such as when a director has a medical emergency. The Board will take into consideration the same criteria for selection of directors such as his qualifications, competencies, and independence. Currently, the Company does not have alternate directors.
- 4.6 The Nominating Committee sources for potential appointees through various channels such as recommendation, executive search or knowledge of the industry. The Nominating Committee then evaluates the eligibility of potential appointees based on several criteria such as his/her experience, ability to exercise independence in decision-making and his/her level of commitment prior to recommending them to the Board.

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

4.7 Directors' Key Information

Name of Director	Date of initial appointment	Date of last re-election	Present directorships in listed companies	Past directorships in the preceding 3 years in listed companies
Mr Sidney Chew Choon Tee	28 April 1989	10 April 2015	Nil	Nil
Mr Jeffrey Tan Bock Chia	12 September 1988	20 April 2018	Nil	Nil
Mr Chan Kam Loon	28 September 2007	17 April 2017	i. Hupsteel Ltd ii. Jiutian Chemical Group Limited iii. Sarine Technologies Limited iv. Uni-Asia Group Limited	Nil
Mr Lee Bon Leong	5 September 2003	10 April 2015	i. Ann Aik Limited ii. Asia Enterprises Holding Ltd	Nil
Dr Tay Kin Bee	1 July 2013	20 April 2018	Nil	Nil
Mr Tatsuyuki Sakoda	1 March 2019	Not applicable	Nil	Nil

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

Name of Director
Mr Chew Choon Tee
Mr Lee Bon Leong
Mr Tatsuyuki Sakoda

Please refer to Board of Directors section of this Annual Report for a profile of each director.

BOARD PERFORMANCE

Principle 5

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

- 5.1 The Nominating Committee conducts an annual assessment of the performance of the Board as a whole and its board committees in view of the complementary and collective nature of directors' contributions. This process is conducted using a questionnaire designed to assess the performance of the Board and its Board committees. The Board and Board committees' performance will be evaluated by each director and the findings are collated for the final review by the Nominating Committee and Board.
- 5.2 The Nominating Committee has established objective performance criteria such as entrepreneurial leadership, value setting, frequency of meetings and participation in strategic planning, risk management and internal controls to evaluate the Board's performance as a whole.
- 5.3 The Board reviews the assessment conducted by the Nominating Committee and where necessary makes changes to further improve the effectiveness of the Board. Following the review, the Board is of the view that the Board and its Board Committees operate effectively.
- 5.4 The last Board of Directors' evaluation was conducted in January 2019 and the results have been presented to the Nominating Committee for discussion in February 2019. The Nominating Committee is satisfied that the Board has been effective as a whole and that each and every director has contributed to the effective functioning of the Board. In addition, the Nominating Committee is also satisfied that sufficient time and attention has been given by the directors to the affairs of the Company, notwithstanding that some of the directors have multiple board representations.

ACCESS TO INFORMATION

Principle 6

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

- 6.1 The Board is provided with complete and adequate information prior to Board meetings and on an on-going basis. The Company circulates copies of the minutes of all Board and Board Committees meetings to all members of the Board to keep them informed of on-going developments within the Group. The Board also has separate and independent access to management.
- 6.2 Information provided to the Board include financial management reports, reports on performance of the Group against the budget with notes on any significant variances, papers pertaining to matters requiring the Board's decision, updates on key outstanding issues, strategic plans and developments in the Group.

CORPORATE GOVERNANCE REPORT

- 6.3 The directors have separate and independent access to the Company Secretary at all times. The Company Secretary attends all Board and Committee meetings and is responsible for ensuring that Board procedures are followed. The Company Secretary assists management in ensuring that the Company complies with rules and regulations which are applicable to the Company.
- 6.4 The Board is involved in the appointment and removal of the Company Secretary.
- 6.5 The Company has in place procedures for directors to seek independent advice, where necessary, in the furtherance of their duties and at the Company's expense.

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7

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

The Remuneration Committee comprises:–

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

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

LEVEL AND MIX OF REMUNERATION

Principle 8

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

- 8.1 Executive directors' remuneration package and key management personnel's remuneration framework are structured in a way that links rewards to corporate and individual performance and takes into account industry benchmarks. The review of remuneration packages also takes into consideration the pay and employment conditions within the industry and the long term interests of the Group. The review covers all aspects of remuneration including salaries, fees, allowances, bonuses, share options and benefits-in-kind. The Remuneration Committee's recommendations are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board.
- 8.2 The Company has in place an Employee Share Option Scheme that serves to provide a longer term incentive better aligned with long term performance of the Company and of the employee. The Company has not granted any share options so far under the scheme.
- 8.3 Remuneration of independent directors is set at a level commensurate with the level of responsibility and after taking into account industry benchmarks. The Company believes that the current remuneration of independent directors is at a level that will not compromise the independence of the directors.
- 8.4 The Company currently does not have any contractual provisions to allow the Company to reclaim incentive from executive directors and key management personnel in exceptional cases of wrongdoings.

DISCLOSURE ON REMUNERATION

Principle 9

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

- 9.1 Remuneration of the executive directors is stipulated in their respective service agreements with the Company ("Service Agreements"). Under the provisions of the Service Agreements, the executive directors shall be paid a monthly base salary and annual wage supplement and be provided with benefits commensurate with the position. The executive directors shall participate in a profit sharing scheme whereby the amount is calculated based on a formula of audited Group's net profit before tax, minority interest and other fixed portion of remuneration entitlements. The executive directors do not receive directors' fees and there are no post retirement and severance benefits except the common practice of giving notice or salary in lieu of notice in the event of termination.
- 9.2 The remuneration of executive directors of the Company for FY 2018 is set out below:–

Name of Director	Remuneration band	% Breakdown of Remuneration		
		Base salary	Bonus	Benefits in kind
Mr Sidney Chew Choon Tee	Band C	74%	18%	8%
Mr Jeffrey Tan Bock Chia	Band C	74%	17%	9%

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

Band A: Below S\$250,000

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

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

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

Independent directors are paid only directors' fees, subject to approval at the annual general meeting. The fees paid to independent directors comprise a basic fee, a fee for chairing a committee and a fee for being a member of the committee. For FY 2018, total of S\$146,000 was paid to independent directors.

The remuneration of independent directors of the Company for FY 2018 is set out below:–

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

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

Band A: Below S\$50,000

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

Mr Toshiyuki Yokogawa, the Non-executive director of the Company, did not receive any remuneration for FY 2018.

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

9.3 The remuneration of top 5 executives of the Group (who are not also directors) for FY 2018 is set out below:–

Remuneration band	No of Executives
Band A	1
Band B	4

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

Band A: Below S\$250,000

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

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

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

- 9.4 The remuneration of an employee who is an immediate family member of Mr Sidney Chew Choon Tee, for FY 2018 is set out as below:-

Name of employee	Remuneration band	% Breakdown of Remuneration		
		Base salary	Bonus	Benefits in kind
Ms Liao Bin Bin (spouse)	Band B	62%	35%	3%

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

Band A: Below S\$250,000

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

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

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

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

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

ACCOUNTABILITY AND AUDIT

Principle 10

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 11

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

- 11.1 The Board oversees management in the area of risk management and internal control system. The Board regularly reviews and improves the Company's business and operational activities to identify areas of significant risks as well as take appropriate measures to control and mitigate these risks.

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

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

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

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

AUDIT COMMITTEE

Principle 12

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

- 12.1 The Audit Committee comprises:-

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

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

- 12.2 The Audit Committee members have many years of experience in their respective fields of accounting, audit, financial management, law and business. The Board considers that the members of the Audit Committee are appropriately qualified to discharge the responsibilities of the Audit Committee.
- 12.3 The Audit Committee has the authority to investigate any matters within its terms of reference and the discretion to invite any director to attend its meetings. The management shall grant full cooperation and resources to enable it to discharge its functions properly.
- 12.4 The Audit Committee's main functions are to:-
- review the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and the Group and any announcements relating to the Group's financial performance;

- (b) review and report to the Board annually the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls;
- (c) review effectiveness of the Company's internal audit function;
- (d) review the scope and results of the external audit and the independence and objectivity of the external auditors;
- (e) make recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approve the remuneration and the terms of engagement of the external auditors;
- (f) review the Group's results announcements, consolidated financial statements and other documents accompanying the same before they are recommended to the Board for approval; and
- (g) review and, where appropriate, approve interested person transactions.
- 12.5 The Audit Committee meets with the internal and external auditors annually to review the adequacy of audit arrangements, with particular emphasis on the scope and quality of their audits, and the independence and objectivity of the internal and external auditors. Annually, the Audit Committee meets the external and the internal auditors without presence of management.
- 12.6 The Audit Committee reviews the independence of the external auditor annually. In the selection of suitable auditing firms, the Audit Committee takes into consideration several factors such as the adequacy of the resources, experience of the accounting auditing firm, the audit engagement partner assigned to the audit, the firm's other audit engagements, the size and complexity of the Group being audited, and the number and experience of supervisory and professional staff assigned to the audit and its ability to provide audit service to our foreign subsidiaries and associated companies. The selected auditing firm based in Singapore is engaged as auditors for the Company as well as our Singapore-incorporated subsidiaries.

A different auditing firm is engaged as auditors for its associated company for FY 2018. The Audit Committee has considered the appointment of different auditing firms for its significant associated company and is satisfied that such appointment would not compromise the standard and effectiveness of the audit of these subsidiaries. The Company is thus in compliance with Rule 712 and 715 set out in Catalyst Rules.

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

The fees for non-audit services rendered in FY 2018 amounted to S\$37,000 which is the fee charged for acting as tax agents of the Company and its subsidiaries.

Fees on audit services to independent auditors:	S\$'000
– paid by Company and its subsidiaries in Singapore	110
– paid by other entities of the Group	109
Total	<u>219</u>
Other fees to independent auditors:	
– paid by Company and its subsidiaries in Singapore	18
– paid by other entities of the Group	19
Total	<u>37</u>

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

CORPORATE GOVERNANCE REPORT

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

- 12.8 The Audit Committee is updated annually on any changes in financial reporting standards by the external auditor. A copy of the Guidebook for Audit Committee is also made available for reference when clarifications need to be sought on responsibilities of the audit committee. The Audit Committee conducted two meetings in the FY 2018, during which, results announcements, external audit report, internal audit report, independence of auditors, appointment of auditors and interested person transactions were reviewed, and the duties as described above were carried out.
- 12.9 No former partner or director of the Company's auditing firm has acted as a member of the Company's Audit Committee.
- 12.10 The following significant matters impacting the financial statements for FY 2018 were discussed with management and the external auditor and were reviewed by the Audit Committee:

Significant matters	How does the Audit Committee address the matter
Impairment of trade receivables	<p>The Audit Committee had reviewed management's approach and judgement in assessing collectibility of outstanding receivables, which includes a review of customers' credit worthiness, historical observed default rate, payment history and correspondences with customers.</p> <p>The Audit Committee was satisfied that the approach was appropriate and provision was adequate. The external auditor has included this item as a key audit matter in the audit report for FY 2018. Please refer to Page 93 of this Annual Report.</p>
Impairment of inventories	<p>The Audit Committee had considered the methodology and management's technical judgement in assessing inventory obsolescence, which includes a review of the ageing of inventory, sales prospects and sales price.</p> <p>The Audit Committee was satisfied that management's methodology was reasonable and carrying value of inventory was appropriate. The external auditor has included this item as a key audit matter in the audit report for FY 2018. Please refer to Page 94 of this Annual Report.</p>
Impairment of subsidiaries	<p>The Audit Committee had considered the methodology, estimates and assumptions used in assessing the impairment of subsidiaries, which includes cash flow forecasts and discount rates used.</p> <p>The Audit Committee was satisfied that management's methodology was reasonable and the impairment was adequate. The external auditor has included this item as a key audit matter in the audit report for FY 2018. Please refer to Page 95 of this Annual Report.</p>

INTERNAL AUDIT

Principle 13

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

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

SHAREHOLDERS RIGHTS

Principle 14

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

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

COMMUNICATION WITH SHAREHOLDERS

Principle 15

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

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

Please refer to Investor Relations section of this Annual Report.
- 15.2 Information is disclosed timely to our shareholders through SGXNET and is also made available on our Company's website. The Company ensures that all shareholders are treated fairly by providing all shareholders the same information at the same time. The Company does not practice selective disclosure of material information.
- 15.3 The Company maintains regular dialogue with shareholders through online Q&A, analyst briefings and at the general meetings.

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

- 15.4 Shareholders are given the opportunity to air their views via the online Q&A, analyst briefings and at general meetings.
- 15.5 In its consideration for dividend payment, the Company takes into account, among other factors, current cash position, future cash needs, profitability, retained earnings and business outlook. The Company takes the view that committing to a fixed dividend policy may jeopardise its financial position in times of adverse changes in market conditions. Hence it does not disclose a dividend policy to its shareholders. Nevertheless, it has been making dividend payments every year since its initial public listing. For FY 2018, the Company had paid an interim dividend of 0.7 cents per share and is recommending a final tax exempt dividend of 0.8 cents per share, subject to approval at the annual general meeting.

CONDUCT OF SHAREHOLDER MEETINGS

Principle 16

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

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

DEALINGS IN SECURITIES

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

MATERIAL CONTRACTS

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

INTERESTED PERSON TRANSACTIONS

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

The aggregate value of interested person transactions entered during FY 2018 were as follows:–

Name of interested person	Aggregate value of all interested person transactions during the financial year ended 31 December 2018 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 2018 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.	Nil (Note 1)	Nil (Note 1)
Sales of products to Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations.	Nil (Note 2)	(Note 2)
Purchase of products from Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations.	Nil (Note 3)	Nil (Note 3)
Purchase of products from SPCI Pte Ltd, a company of which Dr Tay Kin Bee is also a director.	(Note 4)	Nil (Note 4)
Short term loan from Tan Bock Chia, a director of Megachem Group.	(Note 5)	Nil (Note 5)

Note 1: The Group did not engaged the services of Ipem Automation Sdn Bhd during the financial year ended 31 December 2018. There was no prior shareholders’ mandate obtained for these interested person transactions.

Note 2: The Group entered into sales transactions amounting to aggregate S\$77,644 and each transaction was below S\$100,000 which fell outside the scope of Rule 920.

Note 3: The Group had no purchases from Chori Co., Ltd and its related corporations.

Note 4: The Group entered into purchase transactions amounting to S\$58,650 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\$79,360 received by the Group is interest-free. The loan remained outstanding as at 21 February 2019.

CORPORATE GOVERNANCE REPORT

DIRECTORS AND COMMITTEE MEETINGS

The number of Board of Directors and other committees meetings and the record of attendance of each director for FY 2018 is set out below:–

Name of Director	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Mr Sidney Chew Choon Tee	4	4	2	Na	1	1	1	Na
Mr Jeffrey Tan Bock Chia	4	4	2	Na	1	Na	1	Na
Mr Lee Bon Leong	4	4	2	2	1	1	1	1
Mr Chan Kam Loon	4	4	2	2	1	1	1	1
Dr Tay Kin Bee	4	4	2	2	1	Na	1	1
Mr Toshiyuki Yokogawa (resigned with effect from 1 March 2019)	4	4	2	Na	1	Na	1	Na

Na: not applicable

NON-SPONSOR FEES

S\$6,000 non-sponsor services fees was paid to its sponsor, SAC Capital Private Limited, in FY 2018.

INVESTOR RELATIONS

IR CONTACT

Company

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

External Consultant

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

For more information, please visit
www.megachem.com



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

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

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

- Adopts a focused internal IR structure which is supported by appointing external IR advisors, Citigate Dewe Rogerson Singapore Pte Ltd;
- Deploys a dedicated IR website (www.shareinvestor.com) which is regularly updated;
- Conducts half-yearly results briefings and online Q&A session;
 - Senior management including our Managing Director, Executive Director and Chief Financial Officer are present in these briefings.
 - Members of the financial community and media are invited to attend these briefings.
 - Supported by webcast made available on the Company’s website www.megachem.com and the IR website.

- Provides results announcements that are timely with emphasis on responsible financial reporting, business updates and prospects;
- Gives advance notice of the date of announcement of our results;
- Provides business updates where necessary to allow shareholders and investors to understand any significant changes in market trend and its impact on our business;
- Provides detailed accounts of the financial results and operating strategy in our annual report;
 - Provides investor relations strategy that indicates internal and external IR contacts as well as IR websites;

In order to provide expert independent views on the Company’s performance, SAC Advisors Pte Ltd provides stock analysis reports of each of our results announcement. These reports are posted on the Company’s website.

The results announcements, the analyst briefings presentation and the on-line Q&A are all published on SGXNET and are also made available on the Company’s and IR websites. Investors can also view a webcast recording of the analyst briefing at the Company’s and IR websites.

We encourage greater shareholder participation at our general meetings by giving them opportunity to air their views and to post questions regarding the company to directors and management.

INVESTOR RELATIONS

ACCOLADES

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



2018

SINGAPORE CORPORATE AWARDS:
Best Managed Board (Bronze)
in the “less than \$300 million market capitalisation” category

Ranked 78th in the 2018 Singapore Governance and Transparency Index (SGTI)

2017

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

Ranked 56th in the BT Governance and Transparency Index

2016

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

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

Ranked 37th in the BT Governance and Transparency Index

2015

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

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

Ranked 60th in the BT Governance and Transparency Index

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

2014

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

Ranked 64th in the BT Governance and Transparency Index

2013

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

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

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

Ranked 49th in the BT Governance and Transparency Index

2012

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

Ranked 115th in the BT Governance and Transparency Index

2011

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

Ranked 62nd in the BT Governance and Transparency Index

2010

Ranked 235th in the BT Governance and Transparency Index

2009

Ranked 196th in the BT Governance and Transparency Index

2007

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

2006

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

RISK MANAGEMENT



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

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

A. STRATEGIC RISK

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

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

B. FINANCIAL RISK

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

Foreign Currency Risk

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

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

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

Interest Rate Risk

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

Credit Risk

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



RISK MANAGEMENT

Liquidity Risk

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

Capital Risk

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

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

C. OPERATIONAL RISK

IT Security

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

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

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

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

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

- physical security is enhanced by installing security cameras at our premises which can be monitored via IP addresses;
- content filtering has been enabled to prevent viewing inappropriate web sites or content and also to prevent access by known malware hosts;
- disaster recovery procedures are implemented such that in the event of any system breakdown, our operation

can continue with little disruption. Key applications can be run at third party disaster recovery sites located away from our premises. Overseas operations will also be able to access the disaster recovery sites via virtual private network access;

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

Process Execution

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

Business Continuity

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

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

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

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

D. LEGAL RISK

Business Ethics

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

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

Industry Specific Regulations

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

Stock Exchange Listing Rules

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

The image features a close-up of a green leaf with several clear water droplets on its surface. Overlaid on this background are various white chemical structures, including hexose rings, amino acids, and complex organic molecules. The text 'SUSTAINABILITY REPORT' is centered in a bold, dark blue font.

SUSTAINABILITY REPORT

SUSTAINABILITY REPORT



BOARD STATEMENT

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

At Megachem, we view Sustainability as a shared responsibility towards improving not only our business but also our society and the quality of lives for everyone.

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

During the year of 2018, we have made further progress in our sustainability journey. The key achievements are as follows:

Governance

- In the Singapore Governance and Transparency Index, we have once again been ranked highly among the publicly-listed companies in Singapore.
- At the Singapore Corporate Awards 2018, Megachem won Best Managed Board Award (Bronze) in the "less than S\$300 million market capitalization" category.

Environment/Health/Safety

- In recognition of our efforts in meeting international environment, health and safety standards, the Singapore Chemical Industry Council again accorded us, at the Responsible Care Awards 2018, 4 achievement awards in the category of Community Awareness and Emergency Response, Employee Health and Safety, Distribution and Product Stewardship.
- In a Sustainability assessment in 2018 conducted by independent firm, EcoVadis, Megachem attained Gold status and was ranked among the Top 5% of companies assessed by them.

Looking ahead, we will be increasing our focus in the following areas:

- expanding our product portfolio with more sustainable products that has lesser environmental impact,
- Increasing awareness of sustainability issues and good sustainability practices in our daily operation,
- striving and working together with major stakeholders in the chemical industry in adopting higher standards of Sustainability practices,

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

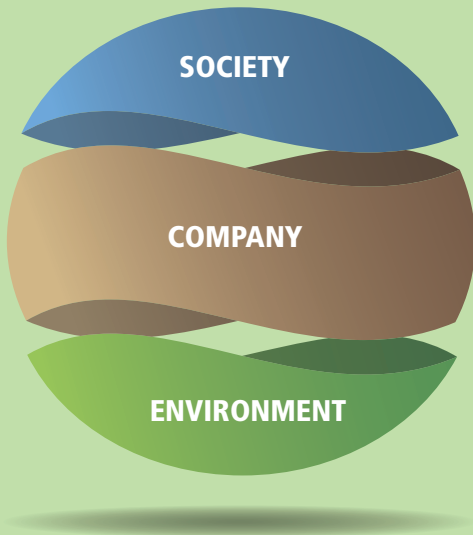
This report is a stamp of our commitment towards the Megachem's Sustainability Vision.

Chairman
Sidney Chew

On behalf of Megachem's
Board of Directors

ORGANISATIONAL PROFILE

Megachem Sustainability Vision



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

Guided by our Sustainability Vision, our objectives are to:

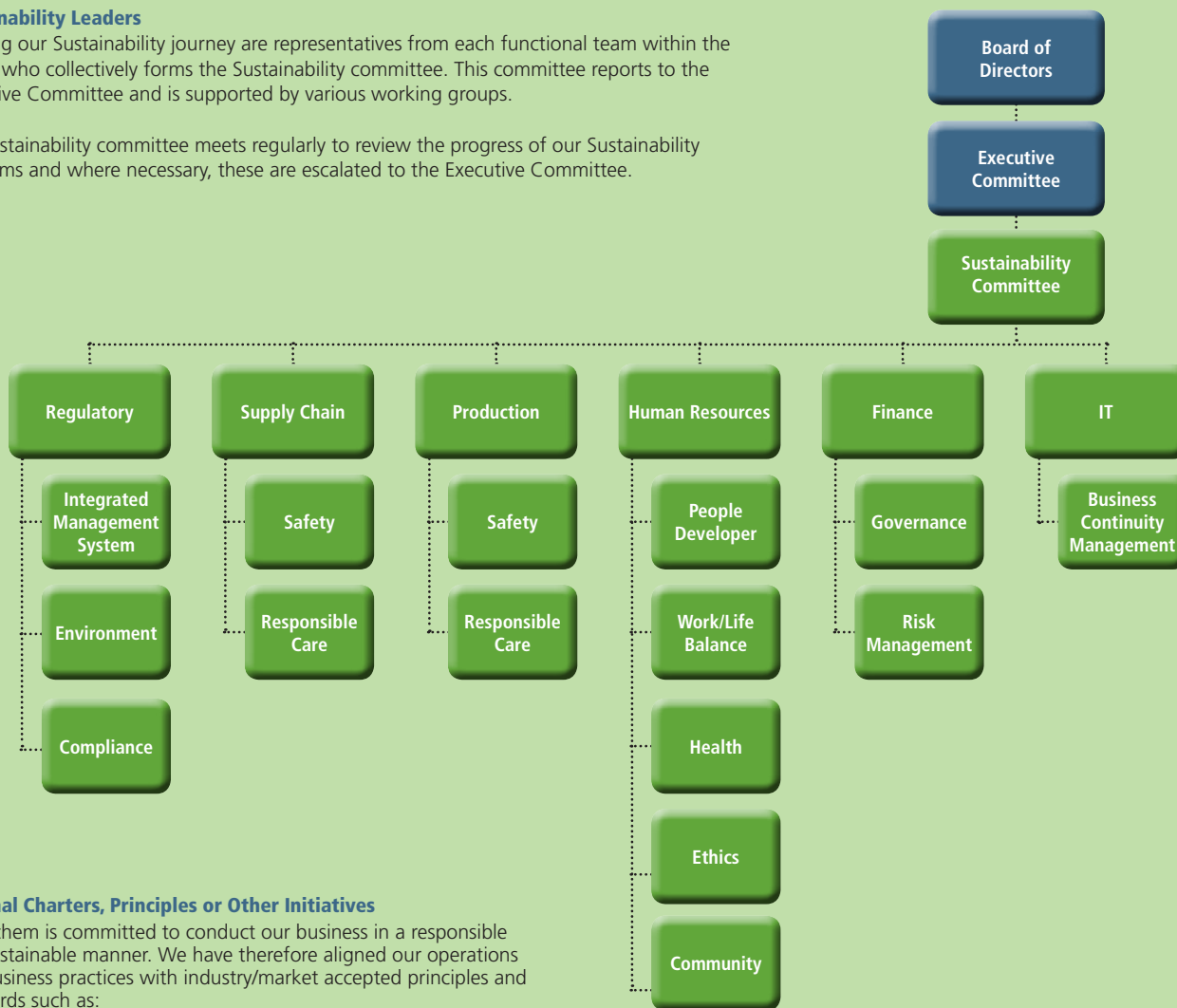
- achieve high standards of health and safety throughout our value chain;
- protect our environment;
- be a preferred employer by providing a working environment where people can feel a sense of belonging;
- adopt best business practices and comply with all applicable rules and regulations;
- manage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

SUSTAINABILITY REPORT

Sustainability Leaders

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

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



External Charters, Principles or Other Initiatives

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

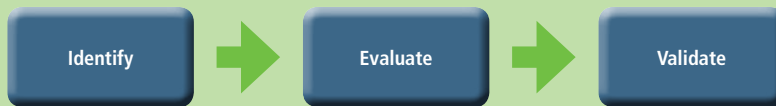
- Responsible Care® – a global environmental, health and safety (EHS) performance initiative for the chemical industry,
- Integrated Management System (ISO9001, OHSAS18001, ISO14001) and ISO22301, a system that integrates all of an organization's policies, processes and procedures into one complete framework, enabling an organization to work as a single unit with unified objectives,
- EcoVadis Sustainability Assessment System – an assessment system used widely in the chemical industry and assesses companies in the areas of environment protection, labour practices, fair business practices and sustainable procurement,
- People Developer – a certification that recognizes organizations that invest in their people and have a comprehensive system to manage the development of their people.

Member of Industry Associations

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

MATERIALITY ASSESSMENT

Process for defining report boundaries and content



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

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

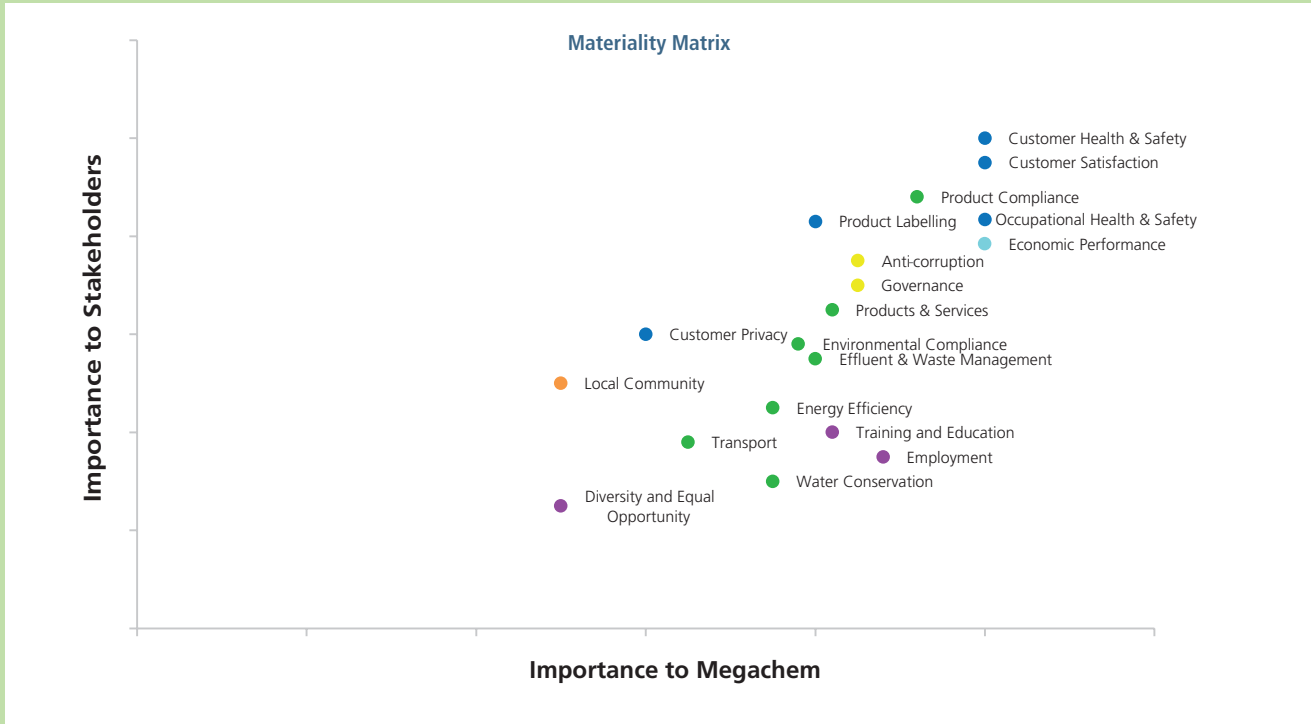
The material aspects are evaluated against 2 criteria: importance to stakeholders and importance to Megachem (in terms of the significance of its impact on economic, environment, social and governance).

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

Our Material Aspects

MATERIAL ASPECTS	
Category: Governance	Governance
Category: Economic	Economic Performance
Category: Environment	Energy Efficiency Water Conservation Effluent & Waste Management Products & Services Environmental Compliance Transport
Category: Social	
sub-category: Labour Practices & decent work	Employment Occupational Health & Safety Training and Education Diversity and Equal Opportunity
sub-category: Society	Local Community Anti-corruption
sub-category: Product Responsibilities	Customer Health & Safety Product Labelling Product Compliance

SUSTAINABILITY REPORT



Aspect Boundaries

Within the Organisation:

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

Outside the Organisation:

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

STAKEHOLDERS ENGAGEMENT

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

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

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

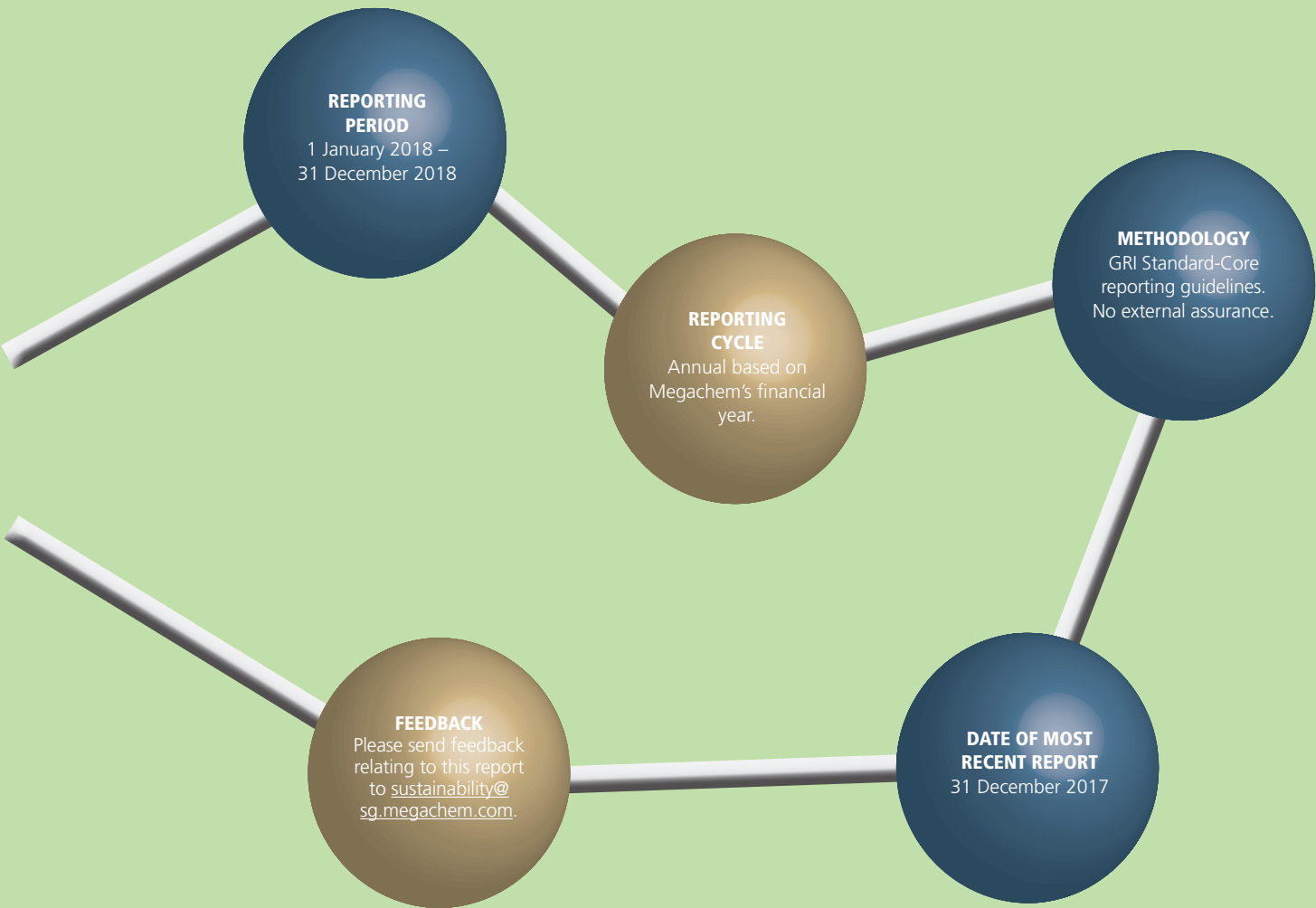
STAKEHOLDERS	STAKEHOLDERS ENGAGEMENT	STAKEHOLDERS FEEDBACK
Employees	<p>Megachem views employee engagement as one of the crucial vehicle to drive business excellence and we do this through:</p> <ul style="list-style-type: none"> • our Learning Needs Analysis which incorporates learning requirements on an organizational, functional and individual level and translates to a training blueprint for departmental and organizational-wide training, • Kaizen which focuses on continuous improvement and innovation through employees participation, • Employee Opinion Survey which is a communication channel for employees' feedback and opinion. 	<p>People Developer's report shows positive results especially in learning, development and innovative culture.</p>
Customers	<p>At the heart of our strategy is our customer-centric approach to conducting our business. Essential to this customer-centric approach is customer engagement.</p> <p>We engage with our customers:</p> <ul style="list-style-type: none"> • through collaboration and regular visits, • customers' satisfaction survey where customers' feedback on Megachem's performance, products and services are garnered. 	<p>In the Customer Satisfaction Survey done in 2018, we scored well in the categories of sales support, responsiveness to customers, order processing and on-time delivery.</p>
Suppliers	<p>We build close relationship with our valued suppliers to ensure deeper market penetration and supply continuity.</p> <p>We create a channel for feedback to our suppliers on the quality of products supplied to us.</p> <p>We also assess and audit our top suppliers to ensure we provide quality products to our customers through our vendor evaluation program.</p> <p>Our suppliers also assess us to ensure we meet their sustainability standards.</p>	<p>Suppliers increasingly value the importance of sustainability in our working relationship with them.</p> <p>Megachem will consistently carry out our sustainability programs to meet requirements of suppliers.</p> <p>In a Sustainability assessment in 2018 conducted by independent firm, EcoVadis, Megachem attained Gold status and was ranked among the Top 5% of companies assessed by them.</p>

SUSTAINABILITY REPORT

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

REPORT PROFILE

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



SUSTAINABILITY REPORT

GOVERNANCE

CORPORATE GOVERNANCE

Objective

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

Approach

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

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

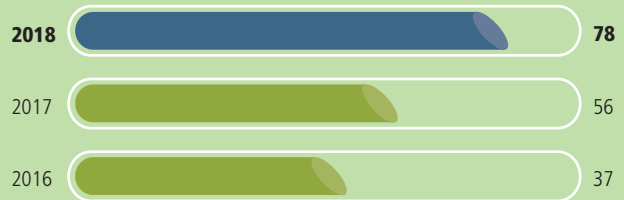


PERFORMANCE HIGHLIGHTS

As a testimony to our high level of corporate governance, Megachem has been accorded many awards.

At the Singapore Corporate Awards 2018, Megachem Limited was awarded the Best Managed Board Award (Bronze) in the "less than \$300 million market capitalisation" category. This is the tenth year out of 13 years that Megachem has won at least an award since the launch of the Singapore Corporate Awards in 2005.

GTI RANK



In the Singapore Governance and Transparency Index ("GTI") which ranks listed companies on its governance and transparency practises, Megachem was ranked highly among all listed companies in Singapore, coming in 78th in 2018 and attained a higher score of 75.

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

Targets & Plans

To improve or maintain the current GTI score and ranking.

ETHICS & INTEGRITY

Objective

To uphold high standards of business ethics and integrity.

Approach

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

RISK MANAGEMENT

Objective

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

Approach

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

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

Performance Highlights

In the FY2018, a review of our enterprise risk management was conducted where significant risks, their impact and the mitigating factors were discussed and updated.

Target and Plans

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

GTI SCORE



ECONOMIC

Objective

To Create Long-term Sustainable Value for our shareholders.

Approach

Megachem adopts a 2-pronged approach:

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

PERFORMANCE HIGHLIGHTS

	2016	2017	2018
Net Profit after tax (S\$'mil)	2.2	4.2	4.3
Shareholders Equity (S\$'mil)	42.0	44.6	47.2
Earnings per share (cents)	1.53	3.18	3.06
Net Dividend/share (cents)	1.2	1.2	1.5
Dividend Yield %	3.0%	2.8%	4.1%
Share Price Appreciation (%)	22.2%	-6.8%	-22.0%
Total Shareholders Return (%)	25.2%	-4.0%	-17.9%

SUSTAINABILITY REPORT

ENVIRONMENT

Objective

We are committed to environmental protection and conservation of resources.

Approach

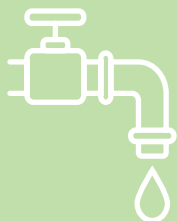
Our efforts in this area includes reducing paper, electricity and water consumption, reducing waste water generation, paper recycling and adopting proper chemical waste treatment methods.



Energy

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

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



Water, Effluent & Waste

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

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



Products and Recycling of packaging materials

Megachem practices 'reduce, reuse and recycle' of packaging material whenever we can. Packaging material such as wooden pallet or plastic pallet are reused in the factory. We also collaborate with customers to reuse packaging materials whenever possible.

In 2018, Megachem recovered a total of 4,098 kg paper and carton boxes 726 kg metal and 1245 kg plastic.



Environmental Impact of transporting goods

Most of our delivery trucks are in compliance with the EURO V standard which helps to reduce the emission of CO₂ and other gases.

In addition, we work with customers to optimize the delivery schedule, taking advantage of consolidation opportunities whenever possible in order to achieve fuel and CO₂ emissions reduction.



Deforestation

Among other factors, greenhouse gas emissions from deforestation is contributing to climate change. Working with suppliers and customers, Megachem is making efforts to reduce deforestation from the chemical supply chain. For example, in the sourcing for paper materials, we will try to source for materials that are made from renewable fibres and certified by international certification organization which promotes sustainable forest management.



Compliance

In 2018, Megachem did not incur any significant fines for non-compliance with environmental laws and regulations.



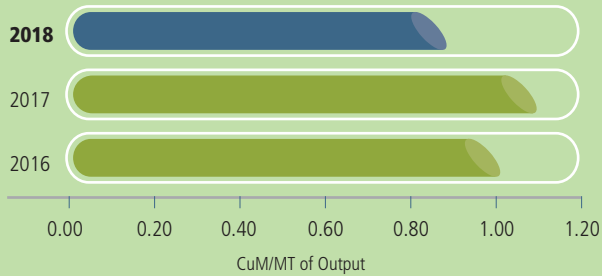
EARTH DAY

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

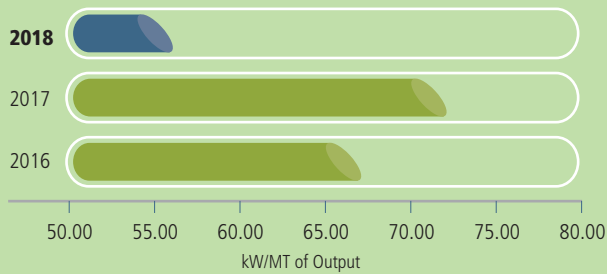
On this day, Megachem around the world turned off all lights for an hour to support the Global Earth Day initiative.

PERFORMANCE HIGHLIGHTS

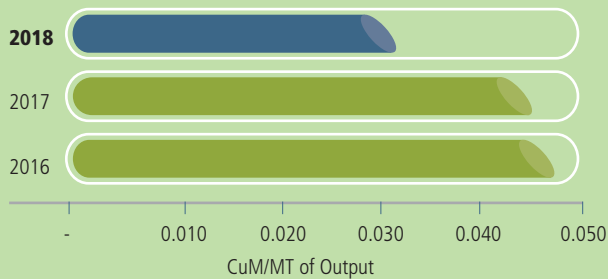
WATER CONSUMPTION (SINGAPORE)



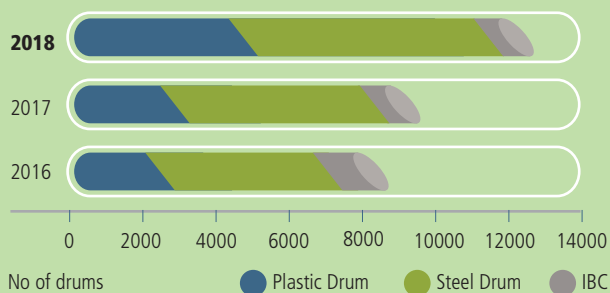
ELECTRICITY CONSUMPTION (SINGAPORE)



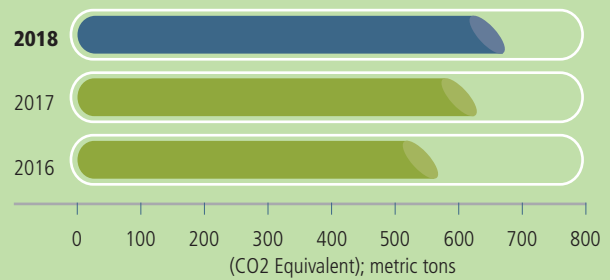
WASTE WATER GENERATION (SINGAPORE)



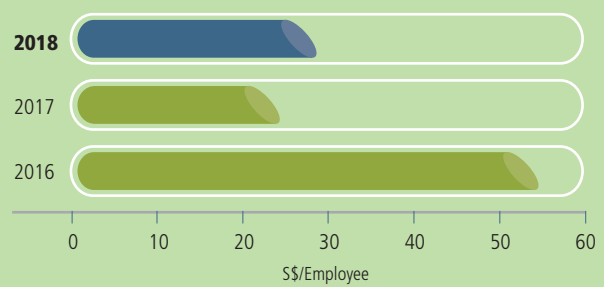
RECOVERED PACKAGING



GREENHOUSE GAS EMISSION (IN SINGAPORE)



PAPER USAGE (SINGAPORE)



TARGETS & PLANS TO REDUCE:

10%
CHEMICAL WASTE

5%
ENERGY CONSUMPTION
(NON-PRODUCTION ACTIVITIES)

≥5%
WASTE WATER REDUCTION
(FROM PRODUCTION)

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

SUSTAINABILITY REPORT



SOCIAL - PRODUCT RESPONSIBILITIES

HEALTH & SAFETY

Objective

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

Approach

The framework for our Health, Safety and Environment (HSE) management is modeled after international standards. We have attained international certification such as the ISO 14001:2015 and OHSAS 18001:2007 certification and are a member of the Responsible Care Program. We are targeting to the OHSAS 18001:2017 certification to ISO 45001:2018 in year 2020 which has an increased emphasis on management commitment, worker involvement, and risk control.

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

Safety Data Sheets detailing health, safety and environment measures are available for all products that we handle. In our Product Stewardships Program, we conducted Global Product Strategy evaluation on existing products range to layout and execute the risk management based on the evaluated hazard assessment and risk characterization. The risk of prioritized products are communicated with the various interested parties, including warehouse personnel, and customer on the Products Safety Summary and Safety Handling Guidelines.

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

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

Employees are required to wear suitable safety clothing and personal protection equipment (PPE) such as helmet, safety shoes, reflective clothing at work. Pathways are appropriately indicated in Megachem's premises. As a result of the programmes in place at Megachem, we are not only able to reduce the number of incidents/accidents, but also able to increase the safety awareness of our employees.

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

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

PERFORMANCE HIGHLIGHTS

For 2018, there has been no cases of non-compliance with health and safety regulations.

1

INDUSTRIAL ACCIDENT

3

MAN DAYS LOST

Corrective action has been taken to prevent occurrence of similar incident.

Targets & Plans

To achieve zero reportable accident.

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

PRODUCT LABELLING

Objective

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

Approach

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

Performance Highlights

The GHS system of chemical classification is currently being implemented.

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



SUSTAINABILITY REPORT

CUSTOMER SATISFACTION

Objective

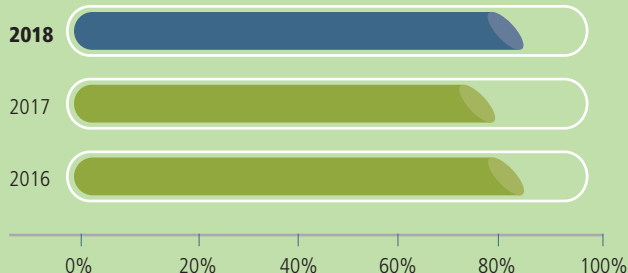
To ensure our products and services are delivered to the satisfaction of our customers.

Approach

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

Performance Highlights

CUSTOMER SATISFACTION



The customer satisfaction survey has been reviewed and areas of improvement have been identified.

Targets & Plans

To achieve customer satisfaction level of at least 85%.

CUSTOMER PRIVACY

Objective

To protect customers and suppliers intellectual property rights and privacy.

Approach

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

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

Performance Highlights

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

SUSTAINABLE PRODUCTS

Objective

To include sustainable products in product portfolio.

Approach

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

PRODUCT COMPLIANCE

Objective

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

Approach

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

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

SOCIAL – LABOUR PRACTICES & WORK ENVIRONMENT

Objective

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

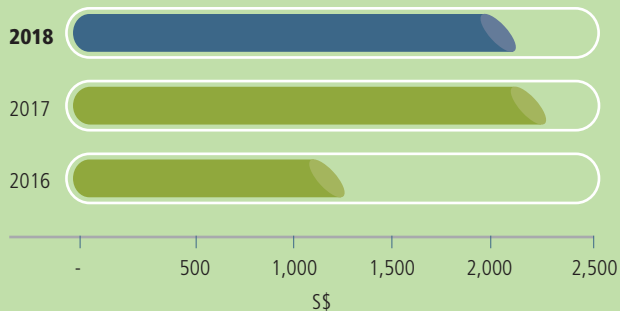
Approach

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

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

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

CHILD EDUCATION SUBSIDY (GROUP)



As a Work Life Achiever Award recipient, Megachem commits to create and sustain a working environment supportive of work life balance for all employees where they are respected partners of the business.



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

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

Subsidy for Children's Education & Support Grant

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

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

Training and Education

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



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

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

SUSTAINABILITY REPORT

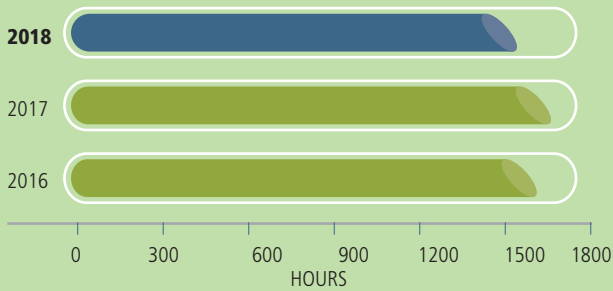
Diversity & Equal Opportunity

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

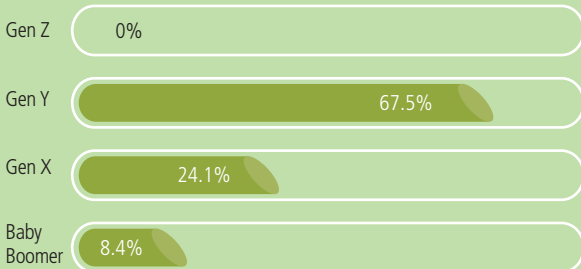
Performance Highlights

Megachem has 237 employees in its organization as at 31 December 2018.

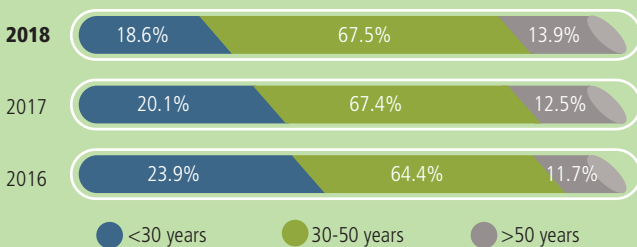
TRAINING HOURS (GROUP)



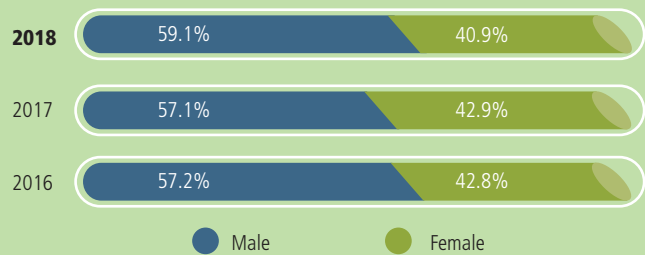
GENERATION (GROUP)



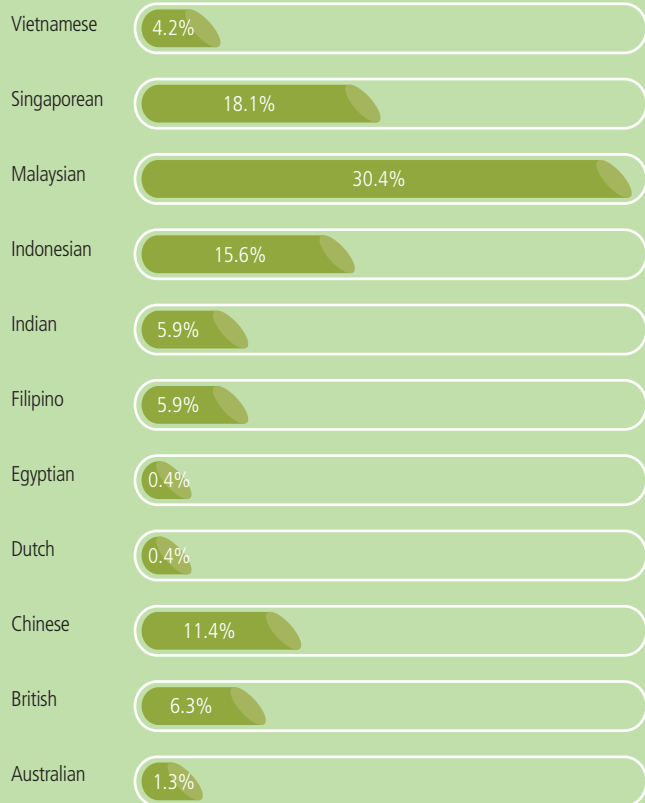
EMPLOYEE AGE DISTRIBUTION (GROUP)



GENDER DIVERSITY (GROUP)



NATIONALITY (GROUP)



TARGETS & PLANS

To achieve higher score for our next renewal of People Developer Certification.

SOCIAL – SOCIETY

Objective

To play our part in nation building.

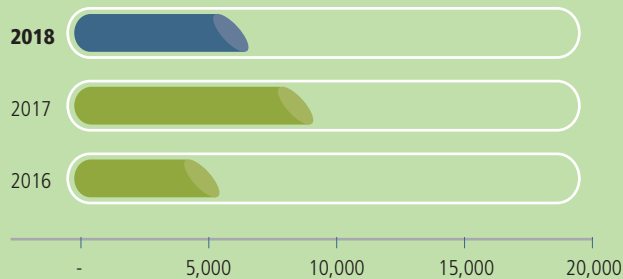
Approach

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

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

Performance Highlights

DONATION (GROUP) S\$



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Notes to the Financial Statements

STATEMENT BY DIRECTORS

The directors of the Company are pleased to present the accompanying financial statements of the Company and of the Group for the reporting year ended 31 December 2018.

1. OPINION OF THE DIRECTORS

In the opinion of the directors,

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

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

2. DIRECTORS

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

Chew Choon Tee
 Tan Bock Chia
 Lee Bon Leong
 Chan Kam Loon
 Tay Kin Bee
 Tatsuyuki Sakoda (Appointed on 1 March 2019)

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

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

Name of directors	Direct Interest		Deemed Interest	
	At 1.1.18	At 31.12.18	At 1.1.18	At 31.12.18
	<u>Number of shares of no par value</u>			
Chew Choon Tee	46,151,416	46,232,416	444,296	444,296
Tan Bock Chia	25,426,083	25,435,083	–	–
Lee Bon Leong	100,000	100,000	–	–

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

The directors' interests as at 21 January 2019 were the same as those at the end of the year.

STATEMENT BY DIRECTORS

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

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

5. OPTIONS

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

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

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

6. REPORT OF AUDIT COMMITTEE

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

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

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

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

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

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

STATEMENT BY DIRECTORS

7. INDEPENDENT AUDITOR

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

8. DIRECTORS' OPINION ON THE ADEQUACY OF INTERNAL CONTROLS

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, and reviews performed by management, other committees of the Board and the Board, the Audit Committee and the Board are of the opinion that Group's system of internal controls, addressing financial, operational, compliance risks, are adequate as at the end of the reporting year 31 December 2018.

9. SUBSEQUENT DEVELOPMENTS

There are no significant developments subsequent to the release of the Group's and the Company's preliminary financial statements, as announced on 21 February 2019, which would materially affect the Group's and the Company's operating and financial performance as of the date of this report.

On behalf of the directors

Chew Choon Tee
Executive Chairman and Managing Director

Tan Bock Chia
Executive Director

11 March 2019

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report to the Members of MEGACHEM LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Megachem Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Group for the reporting year then ended, and notes to the financial statements, including accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and the Singapore Financial Reporting Standards (International) (SFRS)(I) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the reporting year ended on that date.

Basis for opinion

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

Key audit matters

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

1. Impairment of trade receivables

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

Key audit matter

The carrying amount of trade receivables amounted to \$23,562,639 which accounted for approximately 29% of the Group's total assets as at the reporting year end.

The gross amount of trade receivables past due over 4 months amounted to \$949,681. Provision stood at \$597,590, leaving a net amount of \$352,091 that was not provided for as management is of the view that these amounts are recoverable, based on their knowledge of the customers' payment history and credit worthiness.

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

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

Key audit matters (cont'd)

1. Impairment of trade receivables (cont'd)

How we addressed the matter in our audit

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

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

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

2. Impairment of inventories

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

Key audit matter

The carrying amount of inventories amounted to \$26,086,640, which accounted for approximately 32% of the Group's total assets as at the reporting year end.

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

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

How we addressed the matter in our audit

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

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

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

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

Key audit matters (cont'd)

3. Impairment of subsidiaries

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

Key audit matter

The carrying amount of subsidiaries recorded by the Company amounted to \$5,871,772, which accounted for approximately 14% of the Company's total assets as at the reporting year end.

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

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

How we addressed the matter in our audit

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

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

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

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

OTHER INFORMATION

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

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

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

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF MANAGEMENT AND DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

RSM Chio Lim LLP
Public Accountants and
Chartered Accountants
Singapore

11 March 2019

Engagement partner – effective from year ended 31 December 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year Ended 31 December 2018

	Notes	Group	
		2018 \$	2017 \$
Revenue			
Cost of sales	3	117,878,212 (88,430,592)	108,102,074 (81,493,638)
Gross profit		29,447,620	26,608,436
Other income	3	423,067	2,546,480
Distribution costs		(15,700,699)	(15,761,993)
Administrative expenses		(5,338,439)	(5,053,764)
Other operating expenses		(3,470,794)	(3,416,780)
Finance costs	5	(750,178)	(532,689)
Share of profit of associated companies	13	771,491	818,338
Profit before income tax		5,382,068	5,208,028
Income tax expense	7	(1,108,983)	(1,012,840)
Net profit		4,273,085	4,195,188
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations, net of tax		338,798	(116,405)
Total comprehensive income		4,611,883	4,078,783
Net profit attributable to equity holders of the Company		4,079,825	4,242,508
Net profit/(loss) attributable to non-controlling interests		193,260	(47,320)
Net profit		4,273,085	4,195,188
Total comprehensive income attributable to equity holders of the Company		4,409,563	4,226,281
Total comprehensive income/(loss) attributable to non-controlling interests		202,320	(147,498)
Total comprehensive income		4,611,883	4,078,783
Earnings per share for profit attributable to equity holders of the Company (cents per share)			
Basic and diluted	9	3.06	3.18

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

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

	Notes	31.12.2018 \$	Group 31.12.2017 \$	01.01.2017 \$
ASSETS				
Non-current assets				
Property, plant and equipment	10	10,711,685	10,856,528	11,425,745
Investment property	11	79,165	82,054	83,387
Investments in associated companies	13	5,760,592	5,521,196	3,126,186
Transferable club memberships	14	27,012	26,952	26,476
Deferred tax assets	7	261,574	268,282	–
Total non-current assets		16,840,028	16,755,012	14,661,794
Current assets				
Inventories	15	26,086,640	23,914,744	20,368,700
Trade and other receivables	16	24,082,338	27,661,192	24,233,154
Financial assets at fair value through profit or loss	17	383,606	581,533	216,919
Other current assets	18	2,118,083	1,647,396	2,168,578
Cash and cash balances	19	12,199,484	9,344,937	11,560,037
Total current assets		64,870,151	63,149,802	58,547,388
Total assets		81,710,179	79,904,814	73,209,182
EQUITY AND LIABILITIES				
Capital and reserves attributable to equity holders of the Company				
Share capital	20	15,892,028	15,892,028	15,892,028
Other reserves	21	(4,219,180)	(4,548,918)	(4,532,691)
Retained earnings		35,485,710	33,272,085	30,629,177
		47,158,558	44,615,195	41,988,514
Non-controlling interests		2,781,126	2,578,806	2,808,655
Total equity		49,939,684	47,194,001	44,797,169
Non-current liabilities				
Borrowings	22	1,309,229	2,120,264	2,907,008
Total non-current liabilities		1,309,229	2,120,264	2,907,008
Current liabilities				
Current income tax liabilities		215,584	431,885	62,923
Trade and other payables	23	12,036,224	15,580,433	13,006,569
Borrowings	22	18,196,152	14,561,469	12,418,443
Financial liabilities at fair value through profit or loss	24	13,306	16,762	17,070
Total current liabilities		30,461,266	30,590,549	25,505,005
Total liabilities		31,770,495	32,710,813	28,412,013
Total equity and liabilities		81,710,179	79,904,814	73,209,182

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

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

	Notes	31.12.2018 \$	Company 31.12.2017 \$	01.01.2017 \$
ASSETS				
Non-current assets				
Property, plant and equipment	10	1,453,931	1,596,963	1,668,712
Investments in subsidiaries	12	5,871,772	5,284,379	5,084,379
Investments in associated companies	13	2,798,756	2,798,756	2,798,756
Transferable club memberships	14	4,001	4,001	4,001
Total non-current assets		10,128,460	9,684,099	9,555,848
Current assets				
Inventories	15	11,333,191	10,763,479	10,046,724
Trade and other receivables	16	17,937,409	18,329,223	16,147,339
Financial assets at fair value through profit or loss	17	340,145	580,000	150,000
Other current assets	18	212,086	341,079	368,184
Cash and cash balances	19	1,669,521	1,795,013	3,291,107
Total current assets		31,492,352	31,808,794	30,003,354
Total assets		41,620,812	41,492,893	39,559,202
EQUITY AND LIABILITIES				
Equity				
Share capital	20	15,892,028	15,892,028	15,892,028
Retained earnings		7,996,206	8,945,335	8,809,402
Total equity		23,888,234	24,837,363	24,701,430
Current liabilities				
Current income tax liabilities		48,612	178,114	–
Trade and other payables	23	6,212,188	6,832,284	6,863,060
Borrowings	22	11,468,755	9,645,132	7,994,712
Financial liabilities at fair value through profit or loss	24	3,023	–	–
Total current liabilities		17,732,578	16,655,530	14,857,772
Total liabilities		17,732,578	16,655,530	14,857,772
Total equity and liabilities		41,620,812	41,492,893	39,559,202

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

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2018

	Notes	Total equity \$	Parent subtotal \$	Share capital \$	Other reserves \$	Retained earnings \$	Non-controlling interests \$
Group:							
Current year:							
Opening balance at 1 January 2018		47,194,001	44,615,195	15,892,028	(4,548,918)	33,272,085	2,578,806
Total comprehensive income for the reporting year		4,611,883	4,409,563	–	329,738	4,079,825	202,320
Final dividend relating to 2017 paid	8	(933,100)	(933,100)	–	–	(933,100)	–
Interim dividend relating to 2018 paid	8	(933,100)	(933,100)	–	–	(933,100)	–
Closing balance at 31 December 2018		49,939,684	47,158,558	15,892,028	(4,219,180)	35,485,710	2,781,126
Previous year:							
Opening balance at 1 January 2017		44,797,169	41,988,514	15,892,028	(4,532,691)	30,629,177	2,808,655
Total comprehensive income/ (loss) for the reporting year		4,078,783	4,226,281	–	(16,227)	4,242,508	(147,498)
Final dividend relating to 2016 paid	8	(933,100)	(933,100)	–	–	(933,100)	–
Interim dividend relating to 2017 paid	8	(666,500)	(666,500)	–	–	(666,500)	–
Final dividend paid to non-controlling interests		(82,351)	–	–	–	–	(82,351)
Closing balance at 31 December 2017		47,194,001	44,615,195	15,892,028	(4,548,918)	33,272,085	2,578,806

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2018

	Notes	2018 \$	2017 \$
Cash flows from operating activities			
Net profit		4,273,085	4,195,188
Adjustments for:			
Change in fair value of financial assets		240,000	(430,000)
Depreciation charge		912,110	1,168,064
Dividend income		(1,986)	(2,123)
Gain on disposal of property, plant and equipment		(44,597)	(32,307)
Gain on dilution of interest in associated companies		–	(1,839,187)
Share of profit of associated companies		(771,491)	(818,338)
Income tax expense		1,108,983	1,012,840
Interest income		(122,673)	(100,228)
Finance costs		750,178	532,689
Operating cash flow before working capital changes		6,343,609	3,686,598
Change in operating assets and liabilities			
Trade and other receivables		2,769,586	(3,379,347)
Inventories		(2,229,235)	(3,940,359)
Financial assets at fair value through profit or loss		(45,323)	65,386
Trade and other payables		(2,982,471)	3,123,231
Financial liabilities at fair value through profit or loss		13,712	(308)
Foreign exchange adjustment differences		(46,417)	(50,440)
Cash generated from/(used in) operations		3,823,461	(495,239)
Income tax paid		(1,337,161)	(748,757)
Interest received		122,673	100,228
Net cash from/(used in) operating activities		2,608,973	(1,143,768)
Cash flows from investing activities			
Dividends received from associated company and listed equity securities		664,965	358,044
Purchase of property, plant and equipment		(749,226)	(564,836)
Proceeds from sale of property, plant and equipment		44,662	33,885
Net cash used in investing activities		(39,599)	(172,907)
Cash flows from financing activities			
Dividends paid		(1,866,200)	(1,599,600)
Dividends paid by subsidiary to non-controlling shareholders		–	(82,351)
Repayments of long term bank loans		(809,172)	(770,590)
Proceeds from bill payables		861,998	2,476,027
Proceeds/(repayments of) short term bank loans		2,851,714	(301,213)
Interest paid		(710,481)	(523,937)
Net cash from/(used in) financing activities		327,859	(801,664)
Net increase/(decrease) in cash and cash equivalents		2,897,233	(2,118,339)
Cash and cash equivalents, statement of cash flows, beginning balance		9,344,937	11,527,426
Effects of exchange rate changes on cash and cash equivalents		(42,686)	(64,150)
Cash and cash equivalents, statement of cash flows, ending balance	19A	12,199,484	9,344,937

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

1. GENERAL

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

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

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

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

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

Statement of compliance with financial reporting standards

These financial statements for the year ended 31 December 2018 are the first the Group and the Company have prepared in accordance with the Singapore Financial Reporting Standards (International) (“SFRS(I)s”) and the related Interpretations to SFRS(I) (“SFRS (I) INT”) as issued by the Singapore Accounting Standards Council. Accordingly, the Group and the Company have prepared financial statements that comply with SFRS(I) applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. On preparing the financial statements, the Group’s and the Company’s opening balance sheets were prepared as at 1 January 2017, the Group’s and the Company’s date of transition to SFRS(I).

They are in compliance with the provisions of the Companies Act, Chapter 50.

Accounting convention

The financial statements are prepared on a going concern basis under the historical cost convention except where a financial reporting standard requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements. The accounting policies in the financial reporting standards may not be applied when the effect of applying them is not material. The disclosures required by financial reporting standards may not be provided if the information resulting from that disclosure is not material.

Basis of preparation of the financial statements

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

1. GENERAL (CONT'D)

Basis of presentation

The consolidated financial statements include the financial statements made up to the end of the reporting year of the Company and all of its subsidiaries. The consolidated financial statements are the financial statements of the Group (the parent and its subsidiaries) presented as those of a single economic entity and are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intragroup balances and transactions are eliminated on consolidation. Subsidiaries are consolidated from the date the reporting entity obtains control of the investee and cease when the reporting entity loses control of the investee.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

2A. Significant accounting policies

Revenue recognition

The financial reporting standard on revenue from contracts with customers establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer (which excludes estimates of variable consideration that are subject to constraints, such as right of return exists, trade discounts, volume rebates and changes to the transaction price arising from modifications), net of any related sales taxes and excluding any amounts collected on behalf of third parties. An asset (goods or services) is transferred when or as the customer obtains control of that asset. As a practical expedient the effects of any significant financing component is not adjusted if the payment for the good or service will be within one year.

Sale of goods – Revenue is recognised at a point in time when the performance obligation is satisfied by transferring a promised good or service to the customer. Control of the goods is transferred to the customer, generally on delivery of the goods (in this respect, incoterms are considered).

Services – Revenue from service orders and term projects is recognised when the entity satisfies the performance obligation at a point in time generally when the significant acts have been completed and when transfer of control occurs or for services that are not significant transactions revenue is recognised as the services are provided.

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

Interest income is recognised using the effective interest method.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

2A. Significant accounting policies (cont'd)

Government grants

Government grants are recognised at fair value when there is reasonable assurance that the conditions attaching to them will be complied with and that the grants will be received. Grants in recognition of specific expenses are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs that they are intended to compensate. The grant related to assets is presented in the statement of financial position by recognising the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset and in the proportions in which depreciation expense on those assets is recognised.

Employee benefits

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

Borrowing costs

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

Foreign currency transactions

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

Translation of financial statements of other entities

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

2A. Significant accounting policies (cont'd)

Income tax

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

A deferred tax liability or asset is recognised for all taxable temporary differences associated with investments in subsidiaries and associates except where the reporting entity is able to control the timing of the reversal of the taxable temporary difference and it is probable that the taxable temporary difference will not reverse in the foreseeable future or for deductible temporary differences, they will not reverse in the foreseeable future and they cannot be utilised against taxable profits.

Property, plant and equipment

Property, plant and equipment are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation on other items of property, plant and equipment is provided on a straight-line basis to allocate the gross carrying amounts less their residual values over their estimated useful lives of each part of an item of these assets. The useful lives are as follows:

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

Freehold land is not depreciated.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

2A. Significant accounting policies (cont'd)

Property, plant and equipment (cont'd)

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

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

Investment property

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

The estimated useful lives are as follows:

Buildings on freehold land – 50 years

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

Leases

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

2A. Significant accounting policies (cont'd)

Subsidiaries

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

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

Associates

An associate is an entity including an unincorporated entity in which the reporting entity has a significant influence and that is neither a subsidiary nor a joint arrangement of the reporting entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. An investment in an associate includes goodwill on acquisition, which is accounted for in accordance with the financial reporting standard on business combinations. However the entire carrying amount of the investment is tested under the financial reporting standard on impairment, by comparing its recoverable amount (higher of value in use and fair value) with its carrying amount, whenever application of the requirements in the financial reporting standard on financial instruments indicates that the investment may be impaired.

In the consolidated financial statements, the accounting for investments in an associate is on the equity method. Under the equity method the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The carrying value and the net book value of the investment in the associate are not necessarily indicative of the amounts that would be realised in a current market exchange. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income. Losses of an associate in excess of the reporting entity's interest in the relevant associate are not recognised except to the extent that the reporting entity has an obligation. Profits and losses resulting from transactions between the reporting entity and an associate are recognised in the financial statements only to the extent of unrelated reporting entity's interests in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are changed where necessary to ensure consistency with the policies adopted by the reporting entity. The reporting entity discontinues the use of the equity method from the date that when its investment ceases to be an associate and accounts for the investment in accordance with the financial reporting standard on financial instruments from that date. Any gain or loss is recognised in profit or loss. Any investment retained in the former associate is measured at fair value at the date that it ceases to be an associate.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

2A. Significant accounting policies (cont'd)

Business combinations

A business combination is a transaction or other event which requires that the assets acquired and liabilities assumed constitute a business. It is accounted for by applying the acquisition method of accounting. There were no business combinations during the reporting year.

Non-controlling interests

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

Inventories

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

Impairment of non-financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

2A. Significant accounting policies (cont'd)

Financial instruments

Recognition and derecognition of financial instruments:

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the entity neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. A financial liability is removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is discharged or cancelled or expires. At initial recognition the financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification and measurement of financial assets:

1. Financial asset classified as measured at amortised cost: A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss (FVTPL), that is (a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Typically trade and other receivables, bank and cash balances are classified in this category.
2. Financial asset that is a debt asset instrument classified as measured at fair value through other comprehensive income (FVTOCI): There were no financial assets classified in this category at reporting year end date.
3. Financial asset that is an equity investment classified as measured at fair value through other comprehensive income (FVTOCI): There were no financial assets classified in this category at reporting year end date.
4. Financial asset classified as measured at fair value through profit or loss (FVTPL): All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, management may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Classification and measurement of financial liabilities:

Financial liabilities are classified as at fair value through profit or loss (FVTPL) in either of the following circumstances: (1) the liabilities are managed, evaluated and reported internally on a fair value basis; or (2) the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. All other financial liabilities are carried at amortised cost using the effective interest method. Reclassification of any financial liability is not permitted.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

2A. Significant accounting policies (cont'd)

Cash and cash equivalents

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

Derivative financial instruments

A derivative financial instrument is a financial instrument with all three of the following characteristics (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices, credit ratings or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract; (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) it is settled at a future date. The derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently classified as measured at FVTPL unless the derivative is designated and effective as a hedging instrument.

Fair value measurement

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, market observable data to the extent possible is used. If the fair value of an asset or a liability is not directly observable, an estimate is made using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (eg by use of the market comparable approach that reflects recent transaction prices for similar items, discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset/liability that market participants would take into account. The entity's intention to hold an asset or to settle or otherwise fulfil a liability is not taken into account as relevant when measuring fair value.

Fair values are categorised into different levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety: Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices). Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

2B. Other explanatory information

Provisions

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

Segment reporting

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

2C. Critical judgements, assumptions and estimation uncertainties

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

Net realisable value of inventories:

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

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

Allowance for trade accounts:

The trade receivables are subject to the expected credit loss model under the financial reporting standard on financial instruments. The expected lifetime losses are recognised from initial recognition of these assets. These assets are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. The allowance matrix is based on its historical observed default rates (over a period of certain months) over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The loss allowance was determined accordingly. The carrying amounts might change materially within the next reporting year but these changes may not arise from assumptions or other sources of estimation uncertainty at the end of the reporting year. The carrying amount is disclosed in the note on trade and other receivables.

Measurement of impairment of subsidiary or associate:

Where an investee is in net equity deficit and or has suffered losses a test is made whether the investment in the investee has suffered any impairment. This measurement requires significant judgement. An estimate is made of the future profitability of the investee, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the asset. The carrying amount of the specific asset at the end of the reporting year affected by the assumption is \$2,436,219.

Income tax amounts:

The entity recognises tax liabilities and assets tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual amount arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax amounts in the period when such determination is made. In addition management judgement is required in determining the amount of current and deferred tax recognised and the extent to which amounts should or can be recognised. A deferred tax asset is recognised for unused tax losses if it is probable that the entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments. This involves the management making assumptions within its overall tax planning activities and periodically reassessing them in order to reflect changed circumstances as well as tax regulations. As a result, due to their inherent nature assessments of likelihood are judgemental and not susceptible to precise determination. The income tax amounts are disclosed in the note on income tax.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. REVENUE AND OTHER INCOME

	Group	
	2018	2017
	\$	\$
Sale of goods	114,269,616	105,559,565
Rendering of services	3,608,596	2,542,509
Total sales	117,878,212	108,102,074
Other income		
– Bad trade receivables recovered	113,344	82,149
– Changes in fair value of financial assets at fair value through profit or loss (Note 17)	45,323	431,516
– Dividend income from quoted corporations	1,986	2,123
– Gain on disposal of property, plant and equipment	44,597	32,307
– Gain on dilution of interest in associated companies (Note 13)	–	1,839,187
– Government grant	78,370	45,316
– Interest income – banks	122,673	100,228
– Rental income	16,774	13,654
Other income	423,067	2,546,480
Total sales and other income	118,301,279	110,648,554

The revenue from sales of goods and rendering of services is recognised based on point in time and all contracts with customers are less than 12 months.

4. EXPENSE BY NATURE

	Group	
	2018	2017
	\$	\$
Cost of inventories	85,825,921	78,192,604
Depreciation of investment property (Note 11)	3,143	3,012
Depreciation of property, plant and equipment (Note 10)	908,967	1,165,052
Employee compensation (Note 6)	15,316,833	14,143,139
Changes in fair value of financial liabilities at fair value through profit or loss (Note 24)	13,712	16,575
Changes in fair value of financial assets at fair value through profit or loss (Note 17)	240,000	–
Net foreign exchange translation loss	748,070	824,549
Impairment of doubtful trade receivables – individually impaired (Note 16)	272,020	1,381,715
Impairment of doubtful trade receivables – collectively impaired (Note 16)	66,000	–
Rental on operating leases	2,816,275	2,642,915
Inventories written off (Note 15)	74,008	863,525
Other expenses	6,655,575	6,493,089

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

5. FINANCE COSTS

	Group	
	2018	2017
	\$	\$
Interest expense:		
– Bills payable to banks	492,849	302,046
– Bank loans	257,329	230,643
Total finance costs	<u>750,178</u>	<u>532,689</u>

6. EMPLOYEE COMPENSATION

	Group	
	2018	2017
	\$	\$
Wages and salaries	13,940,847	12,886,513
Contributions to defined contribution plans	1,375,986	1,256,626
Total employee compensation (Note 4)	<u>15,316,833</u>	<u>14,143,139</u>

7. INCOME TAX EXPENSE

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

	Group	
	2018	2017
	\$	\$
Current tax expense:		
Current tax expense	1,158,050	1,354,952
Over adjustments to current tax in respect of prior periods	(55,775)	(73,830)
Subtotal	<u>1,102,275</u>	<u>1,281,122</u>
Deferred tax expense/(income):		
Deferred tax expense/(income)	6,708	(268,282)
Subtotal	<u>6,708</u>	<u>(268,282)</u>
Total income tax expense	<u>1,108,983</u>	<u>1,012,840</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

7. INCOME TAX EXPENSE (CONT'D)

7A. Components of tax expense recognised in profit or loss include: (cont'd)

The reconciliation of income taxes below is determined by applying the Singapore corporate tax rate where the parent is domiciled. The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 17.0% (2017: 17.0%) to profit before income tax as a result of the following differences:

	Group	
	2018 \$	2017 \$
Profit before tax	5,382,068	5,208,028
Less: gain on dilution of interest in associated companies	–	(1,839,187)
Less: share of profit of associated companies	(771,491)	(818,338)
	4,610,577	2,550,503
Income tax expense at the above rate	783,798	433,586
Not deductible items	110,768	88,145
Tax exemptions	(39,360)	(51,459)
Over adjustments to current tax in respect of prior periods	(55,775)	(73,830)
Withholding taxes paid	104,525	82,031
Effect of different tax rates, rebates and incentives	250,898	203,270
Unrecognised deferred tax asset	–	331,097
Previously unrecognised deferred tax assets recognised this year	(45,871)	–
Total income tax expense	1,108,983	1,012,840

There are no income tax consequences of dividends to owners of the Company.

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

	Group	
	2018 \$	2017 \$
<u>Deferred tax liabilities:</u>		
Excess of net book value of plant and equipment over tax values	(34,697)	49,807
<u>Deferred tax assets:</u>		
Provisions	17,325	(155,783)
Tax loss carryforwards	24,080	(162,306)
Total deferred tax expense/(income) recognised in profit or loss	6,708	(268,282)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

7. INCOME TAX EXPENSE (CONT'D)

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

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

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
<u>Deferred tax liabilities:</u>			
Excess of net book value of plant and equipment over tax values	151,117	185,814	136,007
<u>Deferred tax assets:</u>			
Provisions	(274,465)	(291,790)	(136,007)
Tax loss carryforwards	(138,226)	(162,306)	-
Total deferred tax assets	(261,574)	(268,282)	-
		Company	
	31.12.2018	31.12.2017	01.01.2017
	\$	\$	\$
<u>Deferred tax liabilities:</u>			
Excess of net book value of plant and equipment over tax values	157,131	189,964	124,372
<u>Deferred tax assets:</u>			
Provisions	(157,131)	(189,964)	(124,372)
Total deferred tax liability	-	-	-

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

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses and capital allowances of \$4,315,000 and \$2,757,000 (2017: \$4,568,000 and \$3,581,000) respectively which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses and capital allowances in their respective countries of incorporation. These tax losses have no expiry date except for \$609,000 which will expire between 2020 to 2024. Unutilised capital allowances do not have expiry dates.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

8. DIVIDENDS

	Group and Company	
	2018	2017
	\$	\$
Final tax exempt dividend paid of 0.7 cents (2017: tax exempt 0.7 cents) per share in respect of the previous reporting year	933,100	933,100
Interim tax exempt dividend paid of 0.7 cents (2017: tax exempt 0.5 cents) per share in respect of current reporting year	933,100	666,500
Total dividends paid in the year	1,866,200	1,599,600

The directors have proposed that a final tax exempt dividend of 0.8 cents per share with a total of \$1,066,400 be paid to shareholders after the annual general meeting to be held on 15 April 2019. There are no income tax consequences. This dividend is subject to approval by shareholders at the next annual general meeting and has not been included as a liability in these financial statements. The proposed dividend is payable in respect of all ordinary shares in issue at the end of the reporting year and including the new qualifying shares issued up to the date the dividend becomes payable.

9. EARNINGS PER SHARE

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

	Group	
	2018	2017
The calculation of earnings per share is based on the following:		
Net profit for the year attributable to equity holders of the Company (\$)	4,079,825	4,242,508
Weighted average number of ordinary shares on issue for basic earnings per share	133,300,000	133,300,000

The Company and Group do not have any discontinued operations.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold land \$	Freehold buildings \$	Buildings on leasehold land \$	Machinery and equipment \$	Motor vehicles \$	Computer equipment, furniture and fixtures \$	Total \$
Group							
<u>Cost:</u>							
At 1 January 2017	3,097,453	128,835	10,500,283	4,866,580	1,756,699	5,313,753	25,663,603
Currency translation differences	65,504	2,724	(28,752)	(5,496)	(26,036)	(45,325)	(37,381)
Additions	–	–	–	155,161	247,030	162,645	564,836
Disposals	–	–	–	(36,384)	(207,082)	(356,393)	(599,859)
At 31 December 2017	3,162,957	131,559	10,471,531	4,979,861	1,770,611	5,074,680	25,591,199
Currency translation differences	8,317	347	6,479	4,222	(450)	(2,047)	16,868
Additions	–	–	–	76,607	301,927	370,692	749,226
Disposals	–	–	–	(39,800)	(251,341)	(151,902)	(443,043)
At 31 December 2018	3,171,274	131,906	10,478,010	5,020,890	1,820,747	5,291,423	25,914,250
<u>Accumulated depreciation:</u>							
At 1 January 2017	–	105,165	3,537,969	4,421,734	1,353,084	4,819,906	14,237,858
Currency translation differences	–	2,301	(5,498)	(2,139)	(25,554)	(39,069)	(69,959)
Depreciation charge	–	2,781	342,079	345,895	159,377	314,920	1,165,052
Disposals	–	–	–	(35,897)	(207,082)	(355,301)	(598,280)
At 31 December 2017	–	110,247	3,874,550	4,729,593	1,279,825	4,740,456	14,734,671
Currency translation differences	–	254	832	3,152	(1,410)	(923)	1,905
Depreciation charge	–	2,901	341,945	114,127	195,337	254,657	908,967
Disposals	–	–	–	(39,800)	(251,341)	(151,837)	(442,978)
At 31 December 2018	–	113,402	4,217,327	4,807,072	1,222,411	4,842,353	15,202,565
<u>Carrying value</u>							
At 1 January 2017	3,097,453	23,670	6,962,314	444,846	403,615	493,847	11,425,745
At 31 December 2017	3,162,957	21,312	6,596,981	250,268	490,786	334,224	10,856,528
At 31 December 2018	3,171,274	18,504	6,260,683	213,818	598,336	449,070	10,711,685

The depreciation expense is charged to profit or loss under:

	Group	
	2018 \$	2017 \$
Cost of sales	23,278	266,370
Operating expenses	885,689	898,682
Total	908,967	1,165,052

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

	Buildings on leasehold land \$	Machinery and equipment \$	Motor vehicles \$	Computer equipment, furniture and fixtures \$	Total \$
Company					
Cost:					
At 1 January 2017	3,574,468	544,345	794,537	3,110,131	8,023,481
Additions	–	38,000	166,352	67,977	272,329
Disposals	–	(35,800)	–	(260,515)	(296,315)
At 31 December 2017	3,574,468	546,545	960,889	2,917,593	7,999,495
Additions	–	–	153,586	62,683	216,269
Disposals	–	–	(59,398)	(83,504)	(142,902)
At 31 December 2018	3,574,468	546,545	1,055,077	2,896,772	8,072,862
Accumulated depreciation:					
At 1 January 2017	2,399,196	429,476	559,392	2,966,705	6,354,769
Depreciation charge	119,149	51,160	79,746	94,023	344,078
Disposals	–	(35,800)	–	(260,515)	(296,315)
At 31 December 2017	2,518,345	444,836	639,138	2,800,213	6,402,532
Depreciation charge	119,149	54,217	110,636	75,299	359,301
Disposals	–	–	(59,398)	(83,504)	(142,902)
At 31 December 2018	2,637,494	499,053	690,376	2,792,008	6,618,931
Carrying value					
At 1 January 2017	1,175,272	114,869	235,145	143,426	1,668,712
At 31 December 2017	1,056,123	101,709	321,751	117,380	1,596,963
At 31 December 2018	936,974	47,492	364,701	104,764	1,453,931

11. INVESTMENT PROPERTY

	31.12.2018 \$	Group 31.12.2017 \$	01.01.2017 \$
At cost:			
Balance at beginning of year	137,960	135,103	138,028
Currency translation differences	363	2,857	(2,925)
Balance at end of year	138,323	137,960	135,103
Accumulated depreciation:			
Balance at beginning of year	55,906	51,716	49,738
Depreciation charge	3,143	3,012	3,146
Currency translation differences	109	1,178	(1,168)
Balance at end of year	59,158	55,906	51,716
Net book value:			
Balance at beginning of year	82,054	83,387	88,290
Balance at end of year	79,165	82,054	83,387

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11. INVESTMENT PROPERTY (CONT'D)

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
Fair value:			
Fair value at end of year	289,283	288,524	282,000
Rental and service income from investment property	16,774	13,654	15,791
Description/Location		Gross floor area	Tenure of land
Condominium BL 20-3, 20th Floor, Mont' Kiara Palma, Jalan 1/70C, Off Bukit Kiara, Kuala Lumpur 50480, Malaysia		129 sq m	Freehold

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

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

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

Asset:	Freehold property at BL 20-3, 20th Floor, Mont' Kiara Palma, Jalan 1/70C, Off Bukit Kiara, Kuala Lumpur 50480, Malaysia
Fair value and fair value hierarchy – Level:	\$289,283 (2017: \$288,524). Level 2. (2017: Level 2).
Valuation technique for recurring fair value measurements:	Comparison with market evidence of recent transaction prices for similar properties.
Significant observable inputs and range (weighted average):	Price per square feet \$213 – \$225 (2017: \$213 – \$225)
Relationship of unobservable inputs to fair value:	Not applicable.
Sensitivity on management's estimates – 10% variation from estimate	Impact – lower by \$28,928; higher by \$28,928.

The investment property was leased out for the years ended 31 December 2018 and 31 December 2017.

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

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12. INVESTMENTS IN SUBSIDIARIES

	31.12.2018	Company 31.12.2017	01.01.2017
	\$	\$	\$
Movements during the year at cost:			
Balance at beginning of year	5,284,379	5,084,379	5,439,769
Add: additions	587,393	–	–
Add: impairment loss (charge)/reversed	–	200,000	(355,390)
Balance at end of year	5,871,772	5,284,379	5,084,379
Net book value of subsidiaries	23,783,775	20,607,414	22,736,055
Total cost comprising:			
Unquoted equity shares at cost	7,087,972	6,500,579	6,500,579
Allowance for impairment	(1,216,200)	(1,216,200)	(1,416,200)
Total at cost	5,871,772	5,284,379	5,084,379

The above is after the following allowance for impairment:

	31.12.2018	Company 31.12.2017	01.01.2017
	\$	\$	\$
Balance at beginning of year	1,216,200	1,416,200	1,060,810
Reversal of impairment loss credit to profit or loss	–	(200,000)	–
Impairment loss charge to profit or loss	–	–	355,390
Balance at end of year	1,216,200	1,216,200	1,416,200

The addition in the reporting year 2018 is due to a capital injection to subsidiary Megachem Specialty Chemicals (I) Private Limited (formerly known as MGI Chemicals Private Limited).

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows:

Name of subsidiary, principal activities, country of incorporation and place of operations

Effective percentage of equity held by Group

31.12.2018	31.12.2017	01.01.2017
%	%	%

Held by the Company

C.N. Chemicals Sdn. Bhd. (b) Trading in industrial chemicals Malaysia	100	100	100
Megachem Manufacturing Pte Ltd (a) Blending of chemicals and chemical-related products Singapore	100	100	100
Megachem Phils., Inc (c) Trading in chemicals and chemical-related products Philippines (Alas, Oplas & Co., CPA)	90	90	90
Megachem Raya Pte Ltd (a) Trading in chemicals and chemical-related products Singapore	74	74	74
Megachem (Shanghai) Pte Ltd (a) Trading in chemicals and chemical-related products Singapore	85	85	85
Megachem (UK) Ltd (b) Trading in chemicals and chemical-related products United Kingdom	85	85	85
Megachem Middle East FZE (b) Trading in chemicals and chemical-related products U.A.E	100	100	100
Megachem Specialty Chemicals (I) Private Limited (formerly known as MGI Chemicals Private Limited) (b) (e) Trading in chemicals and chemical-related products India	100	100	100
Megachem Vietnam Company Limited (b) Trading in chemicals and chemical-related products Vietnam	100	100	100
MG Chemicals (Australia) Pty Ltd (d) Trading in chemicals and chemical-related products Australia	100	100	100
<i>Held by subsidiaries</i>			
Megachem International Trading (Shanghai) Co., Ltd (b) Trading in chemicals and chemical-related products People's Republic of China	85	85	85
P.T. Mega Kemiraya (b) Trading in chemicals and chemical-related products Indonesia	74	74	74

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

- (a) Audited by RSM Chio Lim LLP.
- (b) Audited by member firms of RSM International of which RSM Chio Lim LLP in Singapore is a member.
- (c) Other independent auditor. Audited by firm of accountants other than member firms of RSM International of which RSM Chio Lim LLP in Singapore is a member. Their names are indicated above.
- (d) Not audited as relieved from the requirement to prepare and lodge an audited financial report with the local authorities. The subsidiary is not material to the Group.
- (e) 1% of the equity interest is held through a subsidiary, Megachem Manufacturing Pte Ltd.

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

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

13. INVESTMENTS IN ASSOCIATED COMPANIES

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
Movements in carrying value during the year:			
Balance at beginning of year	5,521,196	3,126,186	5,198,955
Additions	–	–	2,698,807
Currency translation differences	130,884	93,406	94,174
Gain on dilution of interest in associated companies (Note 3)	–	1,839,187	–
Share of profit for the year	771,491	818,338	559,402
Dividends received, net of tax	(662,979)	(355,921)	(5,425,152)
Balance at end of year	5,760,592	5,521,196	3,126,186
Share of net book value of associated companies	5,760,592	5,521,196	3,126,186
	31.12.2018	Company 31.12.2017	01.01.2017
	\$	\$	\$
Carrying value:			
Unquoted equity shares at cost	2,798,756	2,798,756	2,798,756

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

13. INVESTMENTS IN ASSOCIATED COMPANIES (CONT'D)

Details of the associated companies are as follows:

Name of associated companies, principal activities, country of incorporation and place of operations	Effective percentage of equity held by Group		
	31.12.2018 %	31.12.2017 %	01.01.2017 %
Megachem (Thailand) Public Company Limited (a) Trading in chemicals and chemical-related products Thailand (EY Office Limited)	36	36	48
<i>Held by Megachem (Thailand) Public Company Limited</i>			
Vertis Latex Co., Limited (b) Manufacturing of bedding products Thailand	11	11	14
Megachem Plus Limited (c) Import and distribution of ethanol chemicals Thailand	29	–	–
Megachem (Myanmar) Limited (d) Trading in construction material, hospital equipment, seeds and fertilizers Myanmar	18	–	–

- (a) Other independent auditor. Audited by firm of accountants other than member firms of RSM International of which RSM Chio Lim LLP in Singapore is a member. The name is indicated above.
- (b) Vertis Latex Co., Limited is 30% owned by Megachem (Thailand) Public Company Limited. Vertis Latex Co., Limited ceased its operations since June 2018 and plans to dissolve the business in 2019.
- (c) Megachem Plus Limited is 80% owned by Megachem (Thailand) Public Company Limited.
- (d) Megachem (Myanmar) Limited is 51% owned by Megachem (Thailand) Public Company Limited.

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

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

Upon completion of the IPO in the reporting year 2017, the Group’s shareholding interest in MGT has decreased from approximately 48% to approximately 36%. Gains on the dilution of shares amounting to S\$1.8 million is recorded under “other income” (Note 3) in the Group’s consolidated profit or loss statement. MGT will remain an associated company of the Group.

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13. INVESTMENTS IN ASSOCIATED COMPANIES (CONT'D)

During the reporting year ended 31 December 2018, MGT has incorporated the subsidiaries, Megachem Plus Limited ("MPL") and Megachem (Myanmar) Limited ("MML"). The Company, through its 36% shareholding in MGT, has an indirect interest of approximately 29% and 18% in MPL and MML respectively.

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

	31.12.2018	31.12.2017	01.01.2017
	\$	\$	\$
Dividends paid	1,835,126	975,792	11,358,184
Revenue	27,846,019	23,766,271	22,172,945
Profit	2,128,255	1,923,971	1,274,516
Other comprehensive loss	(15,264)	(44,243)	–
Total comprehensive income	2,112,991	1,968,214	1,274,516
Current assets	13,751,194	13,740,702	8,448,338
Non-current assets	8,135,753	4,136,634	4,100,264
Current liabilities	(4,263,358)	(2,251,180)	(5,555,021)
Non-current liabilities	(450,673)	(391,665)	(412,064)
Net assets of the associate	17,172,916	15,234,491	6,580,978

14. TRANSFERABLE CLUB MEMBERSHIPS

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
Transferable club memberships at cost	77,871	77,871	77,871
Currency translation differences	(7,789)	(7,849)	(8,325)
Less: allowance for impairment	(43,070)	(43,070)	(43,070)
Total transferable club memberships	27,012	26,952	26,476
Movement in allowance for impairment: Balance at beginning and end of year	43,070	43,070	43,070
	31.12.2018	Company 31.12.2017	01.01.2017
	\$	\$	\$
Transferable club memberships at cost	47,071	47,071	47,071
Less: allowance for impairment	(43,070)	(43,070)	(43,070)
Total transferable club memberships	4,001	4,001	4,001
Movement in allowance for impairment: Balance at beginning and end of year	43,070	43,070	43,070

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

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31 December 2018

15. INVENTORIES

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
Finished/trading goods	26,086,640	23,914,744	20,368,700
Inventories are stated after allowance.			
<u>Movements in allowance during the year:</u>			
Balance at beginning of the year	3,634,824	2,937,690	2,415,982
Charge to profit or loss included in cost of sales	74,008	863,525	590,135
Used/amount written off	(429,420)	(90,349)	(73,553)
Currency translation differences	6,696	(76,042)	5,126
Balance at end of the year	3,286,108	3,634,824	2,937,690

	Group	
	2018	2017
	\$	\$
The write-downs of inventories charged to profit or loss included in cost of sales (Note 4)	74,008	863,525
Increase in inventories of finished/trading goods	(2,171,896)	(3,546,044)
Purchases of inventories	87,997,817	81,738,648

	31.12.2018	Company 31.12.2017	01.01.2017
	\$	\$	\$
Finished/trading goods	11,333,191	10,763,479	10,046,724
Inventories are stated after allowance.			
<u>Movements in allowance during the year:</u>			
Balance at beginning of the year	1,931,000	1,431,000	1,272,654
Charge to profit or loss included in cost of sales	83,980	532,549	177,002
Used/amount written off	(380,980)	(32,549)	(18,656)
Balance at end of the year	1,634,000	1,931,000	1,431,000

Certain inventories are pledged as security for banking facilities as at 31 December 2018 and 31 December 2017 (see Note 22).

NOTES TO THE FINANCIAL STATEMENTS

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16. TRADE AND OTHER RECEIVABLES

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
Trade receivables:			
Non-related parties	24,107,403	29,620,558	25,215,790
Associated company	52,826	83,873	26,916
Less: allowance for impairment – non-related parties	(597,590)	(2,545,551)	(1,269,558)
Net trade receivables – subtotal	23,562,639	27,158,880	23,973,148
Other receivables:			
Associated company	404	–	–
Non-related parties	519,295	502,312	260,006
Net other receivables – subtotal	519,699	502,312	260,006
Total trade and other receivables	24,082,338	27,661,192	24,233,154
	31.12.2018	Company 31.12.2017	01.01.2017
	\$	\$	\$
Trade receivables:			
Non-related parties	7,423,336	7,828,287	6,737,106
Subsidiaries	7,451,234	7,476,216	7,320,503
Associated company	29,563	29,086	–
Less: allowance for impairment – non-related parties	(14,916)	(30,000)	(35,791)
Less: allowance for impairment – subsidiaries	(1,870,000)	(1,416,000)	(1,553,000)
Net trade receivables – subtotal	13,019,217	13,887,589	12,468,818
Other receivables:			
Loan to subsidiaries	4,416,450	4,019,538	3,549,295
Subsidiaries	1,771,338	1,616,096	1,386,226
Associated company	404	–	–
Less: allowance for impairment – subsidiaries	(1,270,000)	(1,194,000)	(1,257,000)
Net other receivables – subtotal	4,918,192	4,441,634	3,678,521
Total trade and other receivables	17,937,409	18,329,223	16,147,339

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

The loans to subsidiaries are unsecured, bear interest at 3.5% – 5.0% (2017: 3.5% – 5.0%) per annum and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

16. TRADE AND OTHER RECEIVABLES (CONT'D)

Trade and other receivables are denominated in the following currencies:

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
Singapore Dollar	5,522,936	5,590,765	5,042,342
United States Dollar	3,995,401	5,582,784	6,291,615
Malaysia Ringgit	3,046,750	4,425,803	2,776,761
China Renminbi	2,713,891	3,267,293	2,418,300
Indonesia Rupiah	2,106,798	2,254,285	2,266,771
Sterling Pound	1,051,337	842,120	1,299,480
Vietnamese Dong	1,062,932	1,101,353	508,545
Others	4,582,293	4,596,789	3,629,340
Total trade and other receivables	24,082,338	27,661,192	24,233,154

	31.12.2018	Company 31.12.2017	01.01.2017
	\$	\$	\$
Singapore Dollar	6,705,806	7,462,483	6,582,704
United States Dollar	10,147,718	10,405,692	9,176,345
Sterling Pound	433,125	–	–
Others	650,760	461,048	388,290
Total trade and other receivables	17,937,409	18,329,223	16,147,339

The trade receivables are subject to the expected credit loss model (ECL) under the financial reporting standard on financial instruments. The methodology applied for impairment loss is the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected lifetime losses are recognised from initial recognition of these assets. These assets are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. The allowance matrix is based on its historical observed default rates (over a period of 60 months) over the expected life of the trade receivables and is adjusted for forward-looking estimates.

At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The loss allowance was determined as follows:

Group 2018	Expected loss ratio %	Gross amount \$'000	Loss allowance \$'000
Current	–	16,621	–
Past due less than 1 month	–	3,898	–
Past due 1 to 2 months	–	1,808	–
Past due 2 to 3 months	–	503	–
Past due 3 to 4 months	–	381	–
Past due 4 to 6 months	2.29%	239	5
Past due over 6 months, invoice aged less than 1 year	34.08%	179	61
Past due over 6 months, invoice aged over 1 year	100.00%	532	532
Total		24,161	598

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

16. TRADE AND OTHER RECEIVABLES (CONT'D)

No allowance matrix is deemed necessary for the Company. There are no collateral held as security and other credit enhancements for the trade receivables held by the Group and Company.

The amounts are written off when there are indications that there is no reasonable expectation of recovery or the failure of a debtor to make contractual payments over an extended period.

The other receivables at amortised cost shown above are subject to the expected credit loss model under the financial reporting standard on financial instruments. Other receivables are normally with no fixed terms and therefore there is no maturity. Related company receivables are regarded as of low credit risk if they are guaranteed with the ability to settle the amount. Other receivables are regarded as of low credit risk if they have a low risk of default and the debtor has a strong capacity to meet its contractual cash flow obligations in the near term. The methodology applied for impairment loss depends on whether there has been a significant increase in credit risk.

At each subsequent reporting date, an evaluation is made whether there is a significant change in credit risk by comparing the debtor's credit risk at initial recognition (based on the original, unmodified cash flows) with the credit risk at the reporting date (based on the modified cash flows). Adjustment to the loss allowance is made for any increase or decrease in credit risk.

(i) Trade receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

The Group's and Company's non-related party trade receivables not past due include receivables amounting to \$16,568,000 (2017: \$19,989,000) and \$4,983,000 (2017: \$5,770,000) respectively.

(ii) Trade receivables that are past due and/or impaired

The age analysis of non-related party trade receivables past due but not impaired is as follows:

	31.12.2018	Group 31.12.2017	01.01.2017
	\$'000	\$'000	\$'000
Past due less than 1 month	3,898	3,327	3,425
Past due 1 to 2 months	1,808	1,242	936
Past due 2 to 3 months	503	365	361
Past due 3 to 4 months	381	207	82
Past due over 4 months	352	1,945	3,363
Total	6,942	7,086	8,167

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16. TRADE AND OTHER RECEIVABLES (CONT'D)

(ii) Trade receivables that are past due and/or impaired (cont'd)

	31.12.2018 \$'000	Company 31.12.2017 \$'000	01.01.2017 \$'000
Past due less than 1 month	1,515	1,566	1,370
Past due 1 to 2 months	663	410	349
Past due 2 to 3 months	163	52	46
Past due 3 to 4 months	51	–	5
Past due over 4 months	33	–	–
Total	<u>2,425</u>	<u>2,028</u>	<u>1,770</u>

The carrying amount of non-related party trade receivables determined to be impaired and the movement in the related allowance for impairment are as follows:

	31.12.2018 \$'000	Group 31.12.2017 \$'000	01.01.2017 \$'000
Gross amount	598	2,546	1,270
Less: allowance for impairment	(598)	(2,546)	(1,270)
Total	<u>–</u>	<u>–</u>	<u>–</u>
Movements in allowance for impairment during the year:			
Balance at beginning of year	2,546	1,270	415
Currency translation differences	(13)	10	(55)
Additions – Individually impaired (Note 4)	272	1,382	1,036
Additions – Collectively impaired (Note 4)	66	–	–
Bad debt written off	(2,160)	(34)	(37)
Bad debt recovered	(113)	(82)	(89)
Balance at end of year	<u>598</u>	<u>2,546</u>	<u>1,270</u>

	31.12.2018 \$'000	Company 31.12.2017 \$'000	01.01.2017 \$'000
Gross amount	15	30	36
Less: allowance for impairment	(15)	(30)	(36)
Total	<u>–</u>	<u>–</u>	<u>–</u>
Movements in allowance for impairment during the year:			
Balance at beginning of year	30	36	36
Additions	15	–	–
Bad debt written off	–	(6)	–
Bad debt recovered	(30)	–	–
Balance at end of year	<u>15</u>	<u>30</u>	<u>36</u>

NOTES TO THE FINANCIAL STATEMENTS

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16. TRADE AND OTHER RECEIVABLES (CONT'D)

(ii) Trade receivables that are past due and/or impaired (cont'd)

The carrying amount of related party trade and other receivables determined to be impaired and the movement in the related allowance for impairment are as follows:

	31.12.2018	Company	01.01.2017
	\$'000	31.12.2017	\$'000
	\$'000	\$'000	\$'000
Gross amount	3,140	2,610	2,810
Less: allowance for impairment	(3,140)	(2,610)	(2,810)
Total	–	–	–
Movements in allowance for impairment during the year:			
Balance at beginning of year	2,610	2,810	2,460
Additions – Individually impaired	530	150	750
Bad debt recovered	–	(350)	(400)
Balance at end of year	3,140	2,610	2,810

(iii) Concentration of credit risk

The number of debtors that individually represented 5-10% of non-related party trade receivables are as follows:

	31.12.2018	Group	01.01.2017
		31.12.2017	
Number of debtors that represent: 5-10% of non-related party trade receivables	–	2	1
	31.12.2018	Company	01.01.2017
		31.12.2017	
Number of debtors that represent: 5-10% of non-related party trade receivables	1	2	2

There is no concentration of credit risk with respect to trade receivables as there are a large number of customers.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

16. TRADE AND OTHER RECEIVABLES (CONT'D)

(iv) Credit risk exposure

The credit risk for non-related party trade receivables by countries is as follows:

	31.12.2018 \$'000	Group 31.12.2017 \$'000	01.01.2017 \$'000
<u>By geographical areas</u>			
Africa	–	13	29
America	33	3,904	4,043
ASEAN	14,374	16,289	13,007
Australia	745	1,107	543
Middle East	2,710	1,956	1,364
North Asia	3,791	4,050	3,913
South Asia	1,339	1,497	1,516
UK and Europe	1,115	805	801
Total non-related party trade receivables	<u>24,107</u>	<u>29,621</u>	<u>25,216</u>
	31.12.2018 \$'000	Company 31.12.2017 \$'000	01.01.2017 \$'000
<u>By geographical areas</u>			
Africa	–	13	29
America	16	40	6
ASEAN	7,354	7,576	6,625
Middle East	–	15	17
North Asia	16	12	34
South Asia	37	87	26
UK and Europe	–	85	–
Total non-related party trade receivables	<u>7,423</u>	<u>7,828</u>	<u>6,737</u>

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2018 \$	Group 31.12.2017 \$	01.01.2017 \$
Balance at beginning of year	581,533	216,919	142,186
Realisation of forward contracts	(1,533)	(67,103)	(30,110)
Currency translation differences	(1,717)	201	(6,218)
Fair value gains on forward foreign exchange contracts (Note 3)	45,323	1,516	71,061
Fair value gain on listed equity securities (Note 3)	–	430,000	40,000
Fair value loss on listed equity securities (Note 4)	(240,000)	–	–
Balance at end of year	<u>383,606</u>	<u>581,533</u>	<u>216,919</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT'D)

	31.12.2018 At fair value \$	Group 31.12.2017 At fair value \$	01.01.2017 At fair value \$
Listed equity securities – Singapore (Level 1)	340,000	580,000	150,000
Forward foreign exchange contracts (Level 2)	43,606	1,533	66,919
Total financial assets at fair value through profit or loss	383,606	581,533	216,919

	31.12.2018 \$	Company 31.12.2017 \$	01.01.2017 \$
Balance at beginning of year	580,000	150,000	121,158
Realisation of forward contracts	–	–	(11,158)
Fair value gains on forward foreign exchange contracts	145	–	–
Fair value gain on listed equity securities	–	430,000	40,000
Fair value loss on listed equity securities	(240,000)	–	–
Balance at end of year	340,145	580,000	150,000

	31.12.2018 At fair value \$	Company 31.12.2017 At fair value \$	01.01.2017 At fair value \$
Listed equity securities – Singapore (Level 1)	340,000	580,000	150,000
Forward foreign exchange contracts (Level 2)	145	–	–
Total financial assets at fair value through profit or loss	340,145	580,000	150,000

18. OTHER CURRENT ASSETS

	31.12.2018 \$	Group 31.12.2017 \$	01.01.2017 \$
Advance payments to suppliers	1,244,069	877,491	1,223,779
Deposits to secure services	215,802	193,034	207,481
Prepayments	658,212	576,871	737,318
Total other current assets	2,118,083	1,647,396	2,168,578

	31.12.2018 \$	Company 31.12.2017 \$	01.01.2017 \$
Advance payments to suppliers	133,563	259,727	264,624
Deposits to secure services	4,380	4,180	9,530
Prepayments	74,143	77,172	94,030
Total other current assets	212,086	341,079	368,184

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19. CASH AND CASH EQUIVALENTS

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
Not restricted in use	<u>12,199,484</u>	<u>9,344,937</u>	<u>11,560,037</u>
Interest earning balances	<u>4,827,090</u>	<u>2,048,866</u>	<u>2,992,501</u>
	31.12.2018	Company 31.12.2017	01.01.2017
	\$	\$	\$
Not restricted in use	<u>1,669,521</u>	<u>1,795,013</u>	<u>3,291,107</u>
Interest earning balances	<u>-</u>	<u>-</u>	<u>-</u>

Cash and cash equivalents are denominated in the following currencies:

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
Singapore Dollar	887,745	1,307,059	2,542,209
United States Dollar	3,448,448	2,542,276	2,771,785
Malaysia Ringgit	4,703,049	2,675,362	3,454,872
Indonesia Rupiah	1,675,223	827,512	1,109,720
China Renminbi	135,541	343,127	96,306
Sterling Pound	84,389	202,432	287,004
Others	1,265,089	1,447,169	1,298,141
Total cash and bank balances	<u>12,199,484</u>	<u>9,344,937</u>	<u>11,560,037</u>
	31.12.2018	Company 31.12.2017	01.01.2017
	\$	\$	\$
Singapore Dollar	763,695	1,087,104	2,134,369
United States Dollar	845,444	702,112	1,145,063
Others	60,382	5,797	11,675
Total cash and bank balances	<u>1,669,521</u>	<u>1,795,013</u>	<u>3,291,107</u>

Interest earning balances have an average maturity of two months (2017: one month) from the end of the reporting year with the following average interest rates:

	31.12.2018	Group 31.12.2017	01.01.2017
Singapore Dollar	2.2%	-	-
Malaysia Ringgit	3.9%	3.5%	3.4%
Indonesia Rupiah	5.6%	-	-
India Rupees	10.0%	6.9%	7.5%

NOTES TO THE FINANCIAL STATEMENTS

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19. CASH AND CASH EQUIVALENT (CONT'D)

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

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
Amounts as shown above	12,199,484	9,344,937	11,560,037
Bank overdraft (Note 22)	–	–	(32,611)
Cash and cash equivalents for statement of cash flows purposes at end of the year	<u>12,199,484</u>	<u>9,344,937</u>	<u>11,527,426</u>

20. SHARE CAPITAL

	Group and Company	
	Number of shares issued	Share capital \$
Ordinary shares of no par value:		
Balance at 1 January 2017, 31 December 2017 and 31 December 2018	<u>133,300,000</u>	<u>15,892,028</u>

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

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

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

21. OTHER RESERVES

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
Currency translation reserve	<u>(4,219,180)</u>	<u>(4,548,918)</u>	<u>(4,532,691)</u>

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

This reserve is not available for cash dividends unless realised.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

21. OTHER RESERVES (CONT'D)

Movements in currency translation reserve during the year:

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
Balance at beginning of year	(4,548,918)	(4,532,691)	(3,882,334)
Net currency translation differences of financial statements of foreign subsidiaries	329,738	(16,227)	(650,357)
Balance at end of year	(4,219,180)	(4,548,918)	(4,532,691)

22. BORROWINGS

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
<i>Current:</i>			
Bank overdraft (secured)	–	–	32,611
Bill payables (unsecured)	8,952,788	8,436,944	6,183,022
Bill payables (secured)	711,764	376,639	185,111
Short term bank loans (unsecured)	6,410,550	3,900,000	3,900,000
Short term bank loans (secured)	1,304,230	1,038,150	1,350,564
Long term bank loans (secured)	816,820	809,736	767,135
Current, total	18,196,152	14,561,469	12,418,443
<i>Non-current:</i>			
Long term bank loans (secured)	1,309,229	2,120,264	2,907,008
Non-current, total	1,309,229	2,120,264	2,907,008
Total borrowings	19,505,381	16,681,733	15,325,451

	31.12.2018	Company 31.12.2017	01.01.2017
	\$	\$	\$
<i>Current:</i>			
Bill payables (unsecured)	7,708,755	7,645,132	5,994,712
Short term bank loans (unsecured)	3,760,000	2,000,000	2,000,000
Total borrowings	11,468,755	9,645,132	7,994,712

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. BORROWINGS (CONT'D)

The secured long term bank loans as at 31 December 2018 and 31 December 2017 are secured by way of mortgage over property located at 11 Tuas Link 1 Singapore 638588 and industrial land at Seri Alam Industrial Park, Sungai Kapar, Indah, Klang, Selangor.

The secured bank overdraft, bill payables and short term bank loans as at 31 December 2018 and 31 December 2017 are collateralized on fixed and floating charges over all the assets and undertaking of certain subsidiaries, including all present and future freehold and leasehold property, book and other debts, chattels, goodwill and uncalled capital, both present and future.

(a) Maturity of borrowings

The bill payables and short term bank loans have an average maturity of 2 months (2017: 2 months) from the end of the reporting year. The long term bank loans have an average maturity of 4 years from the end of the reporting year (2017: 5 years).

(b) Currency of borrowings

Borrowings are denominated in the following currencies:

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
Singapore Dollar	5,873,748	6,132,468	6,701,046
United States Dollar	8,708,235	7,098,274	5,022,671
Malaysia Ringgit	1,181,594	1,318,885	1,424,143
China Renminbi	1,304,230	1,038,150	953,609
Sterling Pound	1,105,988	–	582,066
Others	1,331,586	1,093,956	641,916
Total borrowings	19,505,381	16,681,733	15,325,451
		Company 31.12.2017	01.01.2017
		\$	\$
Singapore Dollar	3,029,293	2,621,353	2,551,046
United States Dollar	7,236,650	6,649,962	5,022,671
Sterling Pound	433,125	–	–
Others	769,687	373,817	420,995
Total borrowings	11,468,755	9,645,132	7,994,712

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. BORROWINGS (CONT'D)

(c) Interest rate

All borrowings are at floating interest rates.

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

Group

	SGD	2018 USD	Others	SGD	2017 USD	Others
Bills payables	3.1%	4.0%	2.5%	2.5%	2.7%	2.2%
Short term bank loans	3.3%	4.1%	4.4%	2.7%	–	5.8%
Long term bank loans	2.9%	–	6.9%	2.4%	–	6.7%

Company

	SGD	2018 USD	Others	SGD	2017 USD	Others
Bills payables	3.1%	3.9%	1.0%	2.5%	2.6%	1.2%
Short term bank loans	3.3%	4.1%	2.6%	2.6%	–	–

(d) Carrying amounts and fair values

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

23. TRADE AND OTHER PAYABLES

	31.12.2018 \$	Group 31.12.2017 \$	01.01.2017 \$
Trade payables:			
Non-related parties	6,553,435	8,983,054	6,288,282
Associated company	14,483	14,480	28,376
Trade payables – subtotal	6,567,918	8,997,534	6,316,658
Other payables:			
Associated company	10,505	2,829	3,061
Due to a director	79,360	287,560	291,480
Advance payments from customers	84,380	1,510,574	1,623,988
Accrued liabilities	3,671,731	3,242,536	3,326,513
Other payables	1,622,330	1,539,400	1,444,869
Other payables – subtotal	5,468,306	6,582,899	6,689,911
Total trade and other payables	12,036,224	15,580,433	13,006,569

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

23. TRADE AND OTHER PAYABLES (CONT'D)

	31.12.2018	Company 31.12.2017	01.01.2017
	\$	\$	\$
Trade payables:			
Non-related parties	1,959,585	2,851,612	2,486,057
Associated company	1,921	–	–
Subsidiaries	269,272	395,204	528,398
Trade payables – subtotal	<u>2,230,778</u>	<u>3,246,816</u>	<u>3,014,455</u>
Other payables:			
Associated company	7,618	–	–
Subsidiaries	37,968	34,360	13,514
Advance payments from subsidiary	1,300,339	1,250,076	1,615,972
Accrued liabilities	1,817,244	1,491,671	1,399,148
Other payables	818,241	809,361	819,971
Other payables – subtotal	<u>3,981,410</u>	<u>3,585,468</u>	<u>3,848,605</u>
Total trade and other payables	<u><u>6,212,188</u></u>	<u><u>6,832,284</u></u>	<u><u>6,863,060</u></u>

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

Trade and other payables are denominated in the following currencies:

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
Singapore Dollar	3,669,222	2,980,123	3,184,134
United States Dollar	2,980,875	6,475,380	5,782,916
China Renminbi	1,168,255	2,132,003	1,812,605
Sterling Pound	1,528,774	1,608,416	734,172
Malaysia Ringgit	328,053	327,423	241,551
Others	2,361,045	2,057,088	1,251,191
Total trade and other payables	<u><u>12,036,224</u></u>	<u><u>15,580,433</u></u>	<u><u>13,006,569</u></u>

	31.12.2018	Company 31.12.2017	01.01.2017
	\$	\$	\$
Singapore Dollar	3,007,590	2,604,323	2,776,143
United States Dollar	2,887,391	3,971,039	3,993,974
Sterling Pound	72,298	106,579	48,586
Others	244,909	150,343	44,357
Total trade and other payables	<u><u>6,212,188</u></u>	<u><u>6,832,284</u></u>	<u><u>6,863,060</u></u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

24. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2018	Group 31.12.2017	01.01.2017
	\$	\$	\$
<u>Forward foreign exchange contracts</u>			
Balance at beginning of year	16,762	17,070	50,595
Realisation of forward contracts	(16,757)	(17,117)	(45,729)
Currency translation differences	(411)	234	(5,923)
Fair value loss (Note 4)	13,712	16,575	18,127
Balance at end of year	<u>13,306</u>	<u>16,762</u>	<u>17,070</u>
	31.12.2018	Company 31.12.2017	01.01.2017
	\$	\$	\$
<u>Forward foreign exchange contracts</u>			
Balance at beginning of year	–	–	481
Realisation of forward contracts	–	–	(481)
Fair value loss	3,023	–	–
Balance at end of year	<u>3,023</u>	<u>–</u>	<u>–</u>

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

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

	Notional principal			Favourable fair value		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	\$	\$	\$	\$	\$	\$
Group						
Sell Euro	772,283	449,717	520,659	1,975	848	2,954
Sell USD	391,482	–	59,206	2,440	–	–
Purchase Euro	370,896	252,754	147,764	3,144	693	174
Purchase USD	<u>4,073,768</u>	<u>1,051,253</u>	<u>1,287,906</u>	<u>36,047</u>	<u>–</u>	<u>63,791</u>
	<u>5,608,429</u>	<u>1,753,724</u>	<u>2,015,535</u>	<u>43,606</u>	<u>1,533</u>	<u>66,919</u>
				Unfavourable fair value		
	31.12.2018	31.12.2017	01.01.2017			
	\$	\$	\$			
Group						
Sell Euro	3,817	1,140	13,743			
Sell USD	229	–	498			
Purchase Euro	–	2,633	2,397			
Purchase USD	9,260	12,989	432			
	<u>13,306</u>	<u>16,762</u>	<u>17,070</u>			

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

24. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT'D)

	Notional principal			Favourable fair value		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	\$	\$	\$	\$	\$	\$
Company						
Purchase USD	<u>494,576</u>	<u>-</u>	<u>-</u>	<u>145</u>	<u>-</u>	<u>-</u>
				Unfavourable fair value		
				31.12.2018	31.12.2017	01.01.2017
				\$	\$	\$
Company						
Purchase USD				<u>3,023</u>	<u>-</u>	<u>-</u>

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

At 31 December 2018, the settlement date on forward foreign exchange contracts ranges from 1 to 9 months (2017: 1 to 9 months).

25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS

25A. Financial risk management

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

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

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

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

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

25B. Categories of financial assets and liabilities

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

	31.12.2018	Group	01.01.2017
	\$'000	31.12.2017	\$'000
	\$'000	\$'000	\$'000
Financial assets			
Financial assets at amortised cost	36,281	37,006	35,793
Financial assets at fair value through profit or loss	384	582	217
	36,665	37,588	36,010
Financial liabilities			
Financial liabilities at amortised cost	31,457	30,752	26,708
Financial liabilities at fair value through profit or loss	13	17	17
	31,470	30,769	26,725
		Company	
	31.12.2018	31.12.2017	01.01.2017
	\$'000	\$'000	\$'000
Financial assets			
Financial assets at amortised cost	19,607	20,124	19,438
Financial assets at fair value through profit or loss	340	580	150
	19,947	20,704	19,588
Financial liabilities			
Financial liabilities at amortised cost	16,381	15,227	13,242
Financial liabilities at fair value through profit or loss	3	-	-
	16,384	15,227	13,242

Further quantitative disclosures are included throughout these financial statements.

25C. Foreign currency risk

Foreign exchange risk arises on financial instruments that are denominated in a foreign currency, ie in a currency other than the functional currency in which they are measured. For the purpose of this financial reporting standard on financial instruments: disclosures, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to United States Dollar ("USD"), Sterling Pound ("GBP"), Malaysia Ringgit ("RM") and Euro Dollar ("Euro").

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

25C. Foreign currency risk (cont'd)

The Group's currency exposure is as follows:

In \$'000	Exposure in					Total
	SGD	USD	GBP	RM	Others	
As at 31 December 2018						
Financial assets						
Cash and bank balances	888	3,448	84	4,703	3,076	12,199
Trade and other receivables	7,753	15,362	1,773	3,047	13,006	40,941
Subtotal	8,641	18,810	1,857	7,750	16,082	53,140
Financial liabilities						
Trade and other payables	5,883	14,291	2,242	327	5,469	28,212
Borrowings	5,874	8,708	1,106	1,181	2,636	19,505
Subtotal	11,757	22,999	3,348	1,508	8,105	47,717
Net financial assets/(liabilities)	(3,116)	(4,189)	(1,491)	6,242	7,977	5,423
Less: Net financial (assets)/liabilities denominated in respective entities' functional currencies	3,116	1,466	1,045	(6,242)	(5,789)	(6,404)
Less: Currency forwards	–	3,682	–	–	(401)	3,281
Net currency exposure	–	959	(446)	–	1,787	2,300
As at 31 December 2017						
Financial assets						
Cash and bank balances	1,307	2,543	202	2,675	2,618	9,345
Trade and other receivables	8,367	19,292	1,480	4,432	13,422	46,993
Subtotal	9,674	21,835	1,682	7,107	16,040	56,338
Financial liabilities						
Trade and other payables	5,727	16,604	2,246	319	5,960	30,856
Borrowings	6,132	7,099	–	1,319	2,132	16,682
Subtotal	11,859	23,703	2,246	1,638	8,092	47,538
Net financial assets/(liabilities)	(2,185)	(1,868)	(564)	5,469	7,948	8,800
Less: Net financial (assets)/liabilities denominated in respective entities' functional currencies	2,185	1,474	557	(5,469)	(5,949)	(7,202)
Less: Currency forwards	–	1,051	–	–	–	1,051
Net currency exposure	–	657	(7)	–	1,999	2,649

NOTES TO THE FINANCIAL STATEMENTS

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

25C. Foreign currency risk (cont'd)

In \$'000	Exposure in					Total
	SGD	USD	GBP	RM	Others	
As at 1 January 2017						
Financial assets						
Cash and bank balances	2,542	2,772	287	3,455	2,504	11,560
Trade and other receivables	7,677	19,801	1,436	2,790	10,620	42,324
Subtotal	10,219	22,573	1,723	6,245	13,124	53,884
Financial liabilities						
Trade and other payables	5,783	16,761	870	241	4,548	28,203
Borrowings	6,701	5,023	614	1,424	1,563	15,325
Subtotal	12,484	21,784	1,484	1,665	6,111	43,528
Net financial assets/(liabilities)	(2,265)	789	239	4,580	7,013	10,356
Less: Net financial (assets)/liabilities denominated in respective entities' functional currencies	2,265	–	(239)	(4,580)	(6,897)	(9,451)
Less: Currency forwards	–	1,229	–	–	(372)	857
Net currency exposure	–	2,018	–	–	(256)	1,762

The Company's currency exposure is as follows:

In \$'000	Exposure in		Total
	USD	Others	
As at 31 December 2018			
Financial assets			
Cash and bank balances	845	60	905
Trade and other receivables	12,018	2,353	14,371
Subtotal	12,863	2,413	15,276
Financial liabilities			
Trade and other payables	1,587	317	1,904
Borrowings	7,237	1,203	8,440
Subtotal	8,824	1,520	10,344
Net financial assets	4,039	893	4,932
Less: Currency forwards	495	–	495
Net currency exposure	4,534	893	5,427

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

25C. Foreign currency risk (cont'd)

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

25C. Foreign currency risk (cont'd)

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

	31.12.2018		31.12.2017		01.01.2017	
	Profit after tax \$'000	Equity \$'000	Profit after tax \$'000	Equity \$'000	Profit after tax \$'000	Equity \$'000
Group						
USD: strengthen by 1%	36	26	(7)	(17)	17	6
USD: weaken by 1%	(36)	(26)	7	17	(17)	(6)
Company						
USD: strengthen by 1%	38	38	26	26	25	25
USD: weaken by 1%	(38)	(38)	(26)	(26)	(25)	(25)

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

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

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

25D. Equity price risk

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

Such investments are exposed to both currency risk and market price risk arising from uncertainties about future values of the equity shares.

The effect on post tax profit is not significant.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

25E. Interest rate risk

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

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

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

	31.12.2018		31.12.2017		01.01.2017	
	Profit after tax \$'000	Equity \$'000	Profit after tax \$'000	Equity \$'000	Profit after tax \$'000	Equity \$'000
Group						
Increased by 1-percentage point	(162)	(159)	(137)	(136)	(125)	(123)
Decreased by 1-percentage point	162	159	137	136	125	123
Company						
Increased by 1-percentage point	(95)	(95)	(80)	(80)	(66)	(66)
Decreased by 1-percentage point	95	95	80	80	66	66

25F. Credit risk on financial assets

Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations in full or in a timely manner. These arise principally from cash balances with banks, cash equivalents, receivables and other financial assets. The maximum exposure to credit risk is the total of the fair value of the financial assets at the end of the reporting year. Credit risk on cash balances with banks and any other financial instruments is limited because the counterparties are entities with acceptable credit ratings. For expected credit losses (ECL) on financial assets, a simplified approach is permitted by the financial reporting standards on financial instruments for financial assets that do not have a significant financing component, such as trade receivables. On initial recognition, a day-1 loss is recorded equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. For credit risk on trade receivables an ongoing credit evaluation is performed on the financial condition of the debtors and an impairment loss is recognised in profit or loss. Reviews and assessments of credit exposures in excess of designated limits are made. Renewals and reviews of credits limits are subject to the same review process.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

25F. Credit risk on financial assets (cont'd)

Note 19 discloses the maturity of the cash and cash equivalents balances. Bank deposits that are neither past due nor impaired are mainly deposits with reputable banks. Cash and cash equivalents are also subject to the impairment requirements of the standard on financial instruments. There was no identified impairment loss.

As the Group and Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position except for corporate guarantees provided to banks (Note 26).

25G. Liquidity risk – financial liabilities maturity analysis

The following table analyses the Group's and the Company's non-derivative financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

	Less than 1 year \$'000	1-5 years \$'000	More than 5 years \$'000	Total \$'000
Group				
As at 31 December 2018				
Trade and other payables	11,952	–	–	11,952
Gross borrowing commitments	18,426	1,191	323	19,940
	<u>30,378</u>	<u>1,191</u>	<u>323</u>	<u>31,892</u>
As at 31 December 2017				
Trade and other payables	14,070	–	–	14,070
Gross borrowing commitments	14,759	1,870	535	17,164
	<u>28,829</u>	<u>1,870</u>	<u>535</u>	<u>31,234</u>
As at 1 January 2017				
Trade and other payables	11,383	–	–	11,383
Gross borrowing commitments	12,617	2,542	767	15,926
	<u>24,000</u>	<u>2,542</u>	<u>767</u>	<u>27,309</u>

NOTES TO THE FINANCIAL STATEMENTS

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

25G. Liquidity risk – financial liabilities maturity analysis (cont'd)

	Less than 1 year \$'000	1-5 years \$'000	Total \$'000
Company			
As at 31 December 2018			
Trade and other payables	4,912	–	4,912
Gross borrowing commitments	11,562	–	11,562
	16,474	–	16,474
As at 31 December 2017			
Trade and other payables	5,582	–	5,582
Gross borrowing commitments	9,702	–	9,702
	15,284	–	15,284
As at 1 January 2017			
Trade and other payables	5,247	–	5,247
Gross borrowing commitments	8,036	–	8,036
	13,283	–	13,283

The liquidity risk refers to the difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is expected that all the liabilities will be settled at their contractual maturity. The average credit period taken to settle trade payables is about 60 days (2017: 65 days). The classification of the financial assets is shown in the statement of financial position as they may be available to meet liquidity needs and no further analysis is deemed necessary.

The following table analyses the Group's derivative financial instruments for which contractual maturities are essential for understanding of the timing of cash flows by remaining contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	31.12.2018 \$'000	Group 31.12.2017 \$'000	01.01.2017 \$'000
Gross settled currency forwards			
– Receipts	5,598	1,750	1,996
– Payments	(5,511)	(1,781)	(1,944)

Financial guarantee contracts – At the end of the reporting year, no claims on the financial guarantee are expected. All the corporate guarantees provided are disclosed in Note 26. The underlying bank facilities mature within 4 years (2017: 3 years).

The Group and Company manage the liquidity risk by maintaining sufficient cash balances and the availability of funding through an adequate amount of committed credit facilities.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

25H. Capital risk

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

In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or reduce borrowings.

Under loans granted by a bank to a subsidiary, the Company is required by bank to observe certain financial covenants such as a minimum consolidated tangible networth of \$30 million and a maximum consolidated leverage ratio of 1.0. The Company monitors its capital regularly to ensure these covenants are not breached. In addition, the Group seeks to maintain maximum gearing ratio of 0.5 internally to minimise financial risks.

The bank defines leverage ratio as total bank borrowings liabilities divided by total tangible networth and shareholders' networth as aggregate of paid up capital and revenue reserves.

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
Total borrowings (\$'000)	19,505	16,682	15,325	11,469	9,645	7,995
Total tangible networth (\$'000)	47,159	44,615	41,989	23,888	24,837	24,701
Leverage ratio	0.41	0.37	0.36	0.48	0.39	0.32

The Group and the Company are in compliance with all externally imposed capital requirements for the reporting years ended 31 December 2018 and 31 December 2017.

25I. Fair value measurements recognised in the statement of financial position

The fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The quantitative disclosures for the fair value measurements are disclosed below:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Group				
As at 31 December 2018				
<u>Financial assets at fair value through profit or loss:</u>				
Forward foreign currency contracts	–	44	–	44
Quoted equity shares in corporations	340	–	–	340
Total	340	44	–	384
<u>Financial liabilities at fair value through profit or loss:</u>				
Forward foreign currency contracts	–	13	–	13
Total	–	13	–	13

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

25I. Fair value measurements recognised in the statement of financial position (cont'd)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Group				
As at 31 December 2017				
<u>Financial assets at fair value through profit or loss:</u>				
Forward foreign currency contracts	–	2	–	2
Quoted equity shares in corporations	580	–	–	580
Total	580	2	–	582
<u>Financial liabilities at fair value through profit or loss:</u>				
Forward foreign currency contracts	–	17	–	17
Total	–	17	–	17
As at 1 January 2017				
<u>Financial assets at fair value through profit or loss:</u>				
Forward foreign currency contracts	–	67	–	67
Quoted equity shares in corporations	150	–	–	150
Total	150	67	–	217
<u>Financial liabilities at fair value through profit or loss:</u>				
Forward foreign currency contracts	–	17	–	17
Total	–	17	–	17
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Company				
As at 31 December 2018				
<u>Financial assets at fair value through profit or loss:</u>				
Quoted equity shares in corporations	340	–	–	340
Total	340	–	–	340
<u>Financial liabilities at fair value through profit or loss:</u>				
Forward foreign currency contracts	–	3	–	3
Total	–	3	–	3
As at 31 December 2017				
<u>Financial assets at fair value through profit or loss:</u>				
Quoted equity shares in corporations	580	–	–	580
Total	580	–	–	580
As at 1 January 2017				
<u>Financial assets at fair value through profit or loss:</u>				
Quoted equity shares in corporations	150	–	–	150
Total	150	–	–	150

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

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26. CONTINGENT LIABILITIES

The Company has provided an undertaking to provide continuing financial support to subsidiaries, MG Chemicals (Australia) Pty Ltd and Megachem Middle East FZE, to enable the subsidiaries to meet their obligations as and when they fall due. As at 31 December 2018, the net liabilities of MG Chemicals (Australia) Pty Ltd and Megachem Middle East FZE amounted to \$2,586,000 (2017: \$2,196,000) and \$476,000 (2017: \$284,000) respectively.

The Company has also provided corporate guarantees to banks for subsidiaries' loans. The corporate guarantees are as follows:

	31.12.2018	Company	01.01.2017
	\$'000	31.12.2017	\$'000
	\$'000	\$'000	\$'000
Corporate guarantees provided to banks on subsidiaries' loans payable	8,037	7,037	7,331

27. OPERATING LEASE PAYMENT COMMITMENTS – AS LESSEE

At the reporting date the total of future minimum lease payments under non-cancellable operating leases are as follows:

	31.12.2018	Group	01.01.2017
	\$	31.12.2017	\$
	\$	\$	\$
Not later than one year	440,000	402,584	415,935
Later than one year and not later than five years	781,190	787,341	824,587
Later than five years	4,188,382	4,401,902	5,054,051
Rental expense for the year	633,769	503,659	471,902
	31.12.2018	Company	01.01.2017
	\$	31.12.2017	\$
	\$	\$	\$
Not later than one year	70,493	70,493	72,709
Later than one year and not later than five years	281,973	281,973	290,836
Later than five years	2,044,306	2,114,799	2,253,977
Rental expense for the year	70,493	72,709	77,185

The leasehold land, on which the Company's building is situated, is under a non-cancellable operating lease expiring in 2053. The annual land rent payable is subject to annual revision.

Operating lease payments for the Group are for rentals payable for certain office premises and motor vehicles.

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28. CAPITAL COMMITMENTS

At the reporting date the capital commitments are as follows:

	Group			Company		
	31.12.2018	31.12.2017	01.01.2017	31.12.2018	31.12.2017	01.01.2017
	\$	\$	\$	\$	\$	\$
Purchase of plant and equipment	<u>184,141</u>	<u>172,178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

29. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

29A. Related companies and related parties

SFRS(I) 1-24 defines a related party is an entity or person that directly or indirectly through one or more intermediaries controls, is controlled by, or is under common or joint control with, the entity in governing the financial and operating policies, or that has an interest in the entity that gives it significant influence over the entity in financial and operating decisions. It also includes members of the key management personnel or close members of the family of any individual referred to herein and others who have the ability to control, jointly control or significantly influence or for which significant voting power in such entity resides with, directly or indirectly, any such individual. The definition includes parents, subsidiaries, fellow subsidiaries, associates, joint ventures and post-employment benefit plans, if any.

Related companies in these financial statements include the members of the Company's group of companies.

There are transactions and arrangements between the reporting entity and members of the Group and the effects of these on the basis determined between the parties are reflected in these financial statements. The current intercompany balances are unsecured without fixed repayment terms and interest unless stated otherwise. For any significant non-current balances and significant financial guarantees, an interest or charge is charged or imputed unless stated otherwise.

Intragroup transactions and balances that have been eliminated in these consolidated financial statements are not disclosed as related party transactions and balances below.

In addition to the transactions and balances disclosed elsewhere in the notes to the financial statements, significant transactions took place between the Group and related parties during the reporting year:

	2018	2017
	\$	\$
Group		
<u>Associated companies</u>		
Sale of inventories	831,185	718,830
Purchases of inventories	<u>(290,543)</u>	<u>(102,306)</u>
<u>Related parties</u>		
Sale of inventories (a)	77,644	-
Purchases of inventories (b)	<u>(58,650)</u>	<u>(71,141)</u>
Receiving transportation services (c)	<u>-</u>	<u>(24,285)</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

29. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

29A. Related companies and related parties (cont'd)

- (a) Sales of inventories to Chori Co., Ltd, a controlling shareholder of the Company, and its related companies.
- (b) Purchases of inventories from SPCI Pte. Ltd., a company who has a common director with the Company.
- (c) Transportation services rendered by Ipem Automation Sdn. Bhd., a company owned by associates of a director of the Company.

29B. Compensation of directors and key management:

	Group		Company	
	2018 \$	2017 \$	2018 \$	2017 \$
Salaries and other short-term employee benefits of key management	4,847,403	4,599,988	2,833,916	2,771,546
Remuneration of directors of the Company	1,443,202	1,459,837	1,443,202	1,459,837
Fees to directors of the Company	146,000	146,000	146,000	146,000

Key management personnel are the directors and those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. The above amounts for key management compensation are for all the directors and other key management personnel.

30. FINANCIAL INFORMATION BY SEGMENTS

Disclosure of information about operating segments, products and services, the geographical areas, and the major customers are made as required by FRS 108 Operating Segments. This disclosure standard has no impact on the reported results or financial position of the Group.

Management has determined the operating segments based on the reports reviewed by the Executive Committee ("Exco") that are used to make strategic decisions. The Exco comprises the Managing Director, the Executive Director, the Group General Manager, the Chief Financial Officer and the Group Finance Manager.

The Exco considers the business from geographic segment perspective. The Group operates in six main geographical segments (Singapore, Malaysia, Indonesia, United Kingdom, China and Vietnam) by location of revenue and assets. Other geographical areas mainly comprise the Philippines, Middle East, India and Australia, none of which constitute a separately, reportable segment. All geographic locations are engaged in the trading in chemical and chemical-related products. In addition, the segment in Singapore also derives revenue from blending.

As the revenue and assets for blending becomes a significant portion of the Singapore segment, the Exco considers it beneficial to review it as a separate business segment from the distribution activities of the Group.

The Exco assesses the performance of the operating segments based on net profit before tax.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

30. FINANCIAL INFORMATION BY SEGMENTS (CONT'D)

Inter-segment sales are measured on the basis that the entity actually used to price the transfers. Internal transfer pricing policies of the reporting entity are as far as practicable based on market prices. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

There are no customers with revenue transactions of over 10% of the Group revenue.

The following tables illustrate the information about the reportable segment profit or loss, assets and liabilities.

Profit or loss and reconciliations for geographical segments

	Singapore \$'000	Malaysia \$'000	Indonesia \$'000	United Kingdom \$'000	China S\$'000	Vietnam S\$'000	Others \$'000	Unallocated \$'000	Group \$'000
Financial year ended 31 December 2018									
Sales									
Total sales by segment	54,598	14,585	9,922	17,847	14,954	6,223	14,899	–	133,028
Inter-segment sales	(7,834)	(474)	(104)	(3,571)	(3,064)	(24)	(79)	–	(15,150)
	<u>46,764</u>	<u>14,111</u>	<u>9,818</u>	<u>14,276</u>	<u>11,890</u>	<u>6,199</u>	<u>14,820</u>	<u>–</u>	<u>117,878</u>
Segment result	1,822	1,702	704	133	441	922	(486)	–	5,238
Interest income – banks								123	123
Finance costs								(750)	(750)
Share of profit of associated companies								771	771
Profit before income tax								144	5,382
Income tax expense								(1,109)	(1,109)
Net profit	<u>1,822</u>	<u>1,702</u>	<u>704</u>	<u>133</u>	<u>441</u>	<u>922</u>	<u>(486)</u>	<u>(965)</u>	<u>4,273</u>
Other segment items									
Capital expenditure	251	184	98	–	56	35	85	–	749
Depreciation	637	103	74	3	18	19	49	–	912

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30. FINANCIAL INFORMATION BY SEGMENTS (CONT'D)

Assets and liabilities and reconciliations for geographical segments

	Singapore \$'000	Malaysia \$'000	Indonesia \$'000	United Kingdom \$'000	China S\$'000	Vietnam S\$'000	Others \$'000	Unallocated \$'000	Group \$'000
Financial year ended 31 December 2018									
Segment assets	28,918	12,728	6,702	4,951	4,351	3,250	9,961	–	70,861
Associated companies								5,761	5,761
Deferred tax assets								261	261
Interest earning cash balances								4,827	4,827
Consolidated total assets	28,918	12,728	6,702	4,951	4,351	3,250	9,961	10,849	81,710
Segment liabilities	(5,684)	(630)	(704)	(2,252)	(1,256)	(283)	(1,240)	–	(12,049)
Borrowings								(19,505)	(19,505)
Current income tax liabilities								(216)	(216)
Consolidated total liabilities	(5,684)	(630)	(704)	(2,252)	(1,256)	(283)	(1,240)	(19,721)	(31,770)

Profit or loss and reconciliations for geographical segments

	Singapore \$'000	Malaysia \$'000	Indonesia \$'000	United Kingdom \$'000	China S\$'000	Vietnam S\$'000	Others \$'000	Unallocated \$'000	Group \$'000
Financial year ended 31 December 2017									
Sales									
Total sales by segment	54,572	14,314	10,510	16,535	13,074	3,976	12,914	–	125,895
Inter-segment sales	(8,100)	(377)	(169)	(4,485)	(4,571)	(37)	(54)	–	(17,793)
	<u>46,472</u>	<u>13,937</u>	<u>10,341</u>	<u>12,050</u>	<u>8,503</u>	<u>3,939</u>	<u>12,860</u>	–	<u>108,102</u>
Segment result	1,302	1,733	971	(1,772)	298	339	113	–	2,984
Gain on dilution of interest in associated companies								1,839	1,839
Interest income – banks								100	100
Finance costs								(533)	(533)
Share of profit of associated companies								818	818
Profit before income tax								2,224	5,208
Income tax expense								(1,013)	(1,013)
Net profit	1,302	1,733	971	(1,772)	298	339	113	(1,211)	4,195
Other segment items									
Capital expenditure	280	72	91	–	6	4	112	–	565
Depreciation	961	100	54	3	9	14	27	–	1,168

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30. FINANCIAL INFORMATION BY SEGMENTS (CONT'D)

Assets and liabilities and reconciliations for geographical segments

	Singapore \$'000	Malaysia \$'000	Indonesia \$'000	United Kingdom \$'000	China S\$'000	Vietnam S\$'000	Others \$'000	Unallocated \$'000	Group \$'000
Financial year ended 31 December 2017									
Segment assets	30,589	12,861	6,717	5,197	5,106	2,899	8,698	–	72,067
Associated companies								5,521	5,521
Deferred tax assets								268	268
Interest earning cash balances								2,049	2,049
Consolidated total assets	<u>30,589</u>	<u>12,861</u>	<u>6,717</u>	<u>5,197</u>	<u>5,106</u>	<u>2,899</u>	<u>8,698</u>	<u>7,838</u>	<u>79,905</u>
Segment liabilities	(5,629)	(878)	(718)	(4,660)	(2,263)	(263)	(1,186)	–	(15,597)
Borrowings								(16,682)	(16,682)
Current income tax liabilities								(432)	(432)
Consolidated total liabilities	<u>(5,629)</u>	<u>(878)</u>	<u>(718)</u>	<u>(4,660)</u>	<u>(2,263)</u>	<u>(263)</u>	<u>(1,186)</u>	<u>(17,114)</u>	<u>(32,711)</u>

Profit or loss and reconciliations for business segments

	Distribution \$'000	Manufacturing \$'000	Unallocated \$'000	Group \$'000
Financial year ended 31 December 2018				
Sales				
Total sales by segment	128,855	4,173	–	133,028
Inter-segment sales	(14,702)	(448)	–	(15,150)
	<u>114,153</u>	<u>3,725</u>	<u>–</u>	<u>117,878</u>
Segment result	4,656	582	–	5,238
Interest income – banks			123	123
Finance costs			(750)	(750)
Share of profit of associated companies			771	771
Profit before income tax			144	5,382
Income tax expense			(1,109)	(1,109)
Net profit	<u>4,656</u>	<u>582</u>	<u>(965)</u>	<u>4,273</u>
Other segment items				
Capital expenditure	714	35	–	749
Depreciation	635	277	–	912

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

30. FINANCIAL INFORMATION BY SEGMENTS (CONT'D)

Assets and liabilities and reconciliations for business segments

	Distribution \$'000	Manufacturing \$'000	Unallocated \$'000	Group \$'000
Financial year ended 31 December 2018				
Segment assets	64,650	6,211	–	70,861
Associated companies			5,761	5,761
Deferred tax assets			261	261
Interest earning cash balances			4,827	4,827
Consolidated total assets	64,650	6,211	10,849	81,710
Segment liabilities	(11,323)	(726)	–	(12,049)
Borrowings			(19,505)	(19,505)
Current income tax liabilities			(216)	(216)
Consolidated total liabilities	(11,323)	(726)	(19,721)	(31,770)

Profit or loss and reconciliations for business segments

	Distribution \$'000	Manufacturing \$'000	Unallocated \$'000	Group \$'000
Financial year ended 31 December 2017				
Sales				
Total sales by segment	122,576	3,319	–	125,895
Inter-segment sales	(17,110)	(683)	–	(17,793)
	105,466	2,636	–	108,102
Segment result	2,877	107	–	2,984
Gain on dilution of interest in associated companies			1,839	1,839
Interest income – banks			100	100
Finance costs			(553)	(533)
Share of profit of associated companies			818	818
Profit before income tax			2,224	5,208
Income tax expense			(1,013)	(1,013)
Net profit	2,877	107	1,211	4,195
Other segment items				
Capital expenditure	558	7	–	565
Depreciation	553	615	–	1,168

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

30. FINANCIAL INFORMATION BY SEGMENTS (CONT'D)

Assets and liabilities and reconciliations for business segments

	Distribution \$'000	Manufacturing \$'000	Unallocated \$'000	Group \$'000
Financial year ended 31 December 2017				
Segment assets	65,798	6,269	–	72,067
Associated companies			5,521	5,521
Deferred tax assets			268	268
Interest earning cash balances			2,049	2,049
Consolidated total assets	<u>65,798</u>	<u>6,269</u>	<u>7,838</u>	<u>79,905</u>
Segment liabilities	(15,222)	(375)	–	(15,597)
Borrowings			(16,682)	(16,682)
Current income tax liabilities			(432)	(432)
Consolidated total liabilities	<u>(15,222)</u>	<u>(375)</u>	<u>(17,114)</u>	<u>(32,711)</u>

31. ITEMS IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In addition to the charges and credits disclosed elsewhere in the notes to the financial statements, this item includes the following charges:

	Group	
	2018 \$'000	2017 \$'000
Fees on audit services to independent auditors:		
– Company's independent auditor	110	103
– Other independent auditors	109	106
Total	<u>219</u>	<u>209</u>
Other fees to independent auditors:		
– Company's independent auditor	18	17
– Other independent auditors	19	14
Total	<u>37</u>	<u>31</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

32. CHANGES AND ADOPTION OF FINANCIAL REPORTING STANDARDS

The accounting policies adopted are consistent with those previously applied under FRS except that in the current financial year, the Group has adopted all the SFRS(I) which are effective for annual financial periods beginning on or after 1 January 2018.

For the current reporting year new or revised financial reporting standards were issued by the Singapore Accounting Standards Council. Those applicable to the reporting entity are listed below. Those applicable new or revised standards did not require any significant modification of the measurement methods or the presentation in the financial statements.

SFRS (I) No.	Title
SFRS(I) 1-28	Amendments to, Investments in Associates and Joint Venture – Sale or Contribution of Assets
SFRS(I) 1-40	Amendments to, Transfer of Investment Property
SFRS(I) 1	First-time Adoption of Singapore Financial Reporting Standards (International)
SFRS(I) 9	Financial Instruments
SFRS(I) 15	Revenue from Contracts with Customers.
	Amendments to, Clarifications to SFRS(I) 15 Revenue from Contracts with Customers
SFRS(I) INT 22	Foreign Currency Transactions and Advance Consideration

SFRS(I) 9 Financial Instruments

The standard on financial instruments contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition. It requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification. For financial liabilities, it also has requirements to cases where the fair value option is taken. For the impairment of financial assets, it introduces an “expected credit loss” (“ECL”) model; recognition of a credit loss should no longer wait for there to be objective evidence of impairment. For hedge accounting, it allows financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures. Prior reporting periods need not be restated. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. Therefore, the standard has been applied for the reporting year ended 31 December 2018 only.

33. NEW OR AMENDED STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

For the future reporting years certain new or revised financial reporting standards were issued by the Singapore Accounting Standards Council and these will only be effective for future reporting years. Those applicable to the reporting entity for future reporting year are listed below. Adoption of the applicable new or revised standards are expected to result in some changes in the detailed application of the accounting policies and some modifications to financial statements presentation and measurement.

SFRS (I) No	Title	Effective date for periods beginning on or after
SFRS(I) 1-28	Amendments: Long-Term Interests In Associates And Joint Ventures	1 Jan 2019
SFRS(I) 16	Leases (and Leases – Illustrative Examples & Amendments to Guidance on Other Standards)	1 Jan 2019
SFRS(I) INT 23	Uncertainty over Income Tax Treatments	1 Jan 2019
SFRS(I) 1-12	Improvements (2017) – Amendments: Income Taxes	1 Jan 2019
SFRS(I) 1-23	Improvements (2017) – Amendments: Borrowing Costs	1 Jan 2019
SFRS(I) 3	Improvements (2017) – Amendments: Business Combinations	1 Jan 2019
SFRS(I) 11	Improvements (2017) – Amendments: Joint Arrangements	1 Jan 2019
SFRS(I) 10 and SFRS(I) 1-28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not fixed yet

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

33. NEW OR AMENDED STANDARDS IN ISSUE BUT NOT YET EFFECTIVE (CONT'D)

Leases:

The financial reporting standard on leases is effective for annual periods beginning on or after 1 January 2019 and it supersedes the previous reporting standard and the related interpretations on leases. For the lessor, the accounting remains largely unchanged. As for the finance leases of a lessee, as the financial statements have already recognised an asset and a related finance lease liability for the lease arrangement, the application of the new reporting standard on leases is not expected to have a material impact on the amounts recognised in the financial statements. For the lessee almost all leases will be brought onto the statements of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. For the entity's non-cancellable operating lease commitments of \$5,409,572 as at 31 December 2018 shown in Note 27, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under the new reporting standard on leases. Thus, the entity will have to recognise a right-of-use asset and a corresponding liability in respect of all these leases (unless they qualify for low value or short-term leases) which might have a material impact on the amounts recognised in the financial statements. The table below shows the amount by which each financial statement line item is impacted (debits/(credits)) in the current reporting year 2018 by the application of the new standard on leases:

	Group 2018 \$'000	Company 2018 \$'000
<u>Statement of financial position:</u>		
Right to use assets	2,776	1,169
Lease liabilities	(2,776)	(1,169)

There is no impact on profit after tax.

STATISTICS OF SHAREHOLDING

As at 7 March 2019

Number of Issued Shares	:	133,300,000
Class of Shares	:	Ordinary
Voting Rights	:	One vote per share
Number of Treasury and Subsidiary Holdings Shares	:	Nil

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS AS AT 7 MARCH 2019

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	2	0.53	143	0.00
100 – 1,000	28	7.39	24,168	0.02
1,001 – 10,000	196	51.71	1,195,900	0.90
10,001 – 1,000,000	141	37.20	7,986,631	5.99
1,000,001 AND ABOVE	12	3.17	124,093,158	93.09
TOTAL	379	100.00	133,300,000	100.00

TWENTY LARGEST SHAREHOLDERS AS AT 7 MARCH 2019

NO.	SHAREHOLDER'S NAME	NUMBER OF SHARES HELD	%
1	CITIBANK NOMINEES SINGAPORE PTE LTD	40,095,570	30.08
2	CHEW CHOON TEE	36,917,416	27.69
3	TAN BOCK CHIA	15,435,083	11.58
4	DB NOMINEES (SINGAPORE) PTE LTD	10,113,000	7.59
5	HONG LEONG FINANCE NOMINEES PTE LTD	6,008,000	4.51
6	HSBC (SINGAPORE) NOMINEES PTE LTD	5,075,000	3.81
7	MAYBANK KIM ENG SECURITIES PTE.LTD.	3,375,000	2.53
8	CHONG SIEW LEE MICHELE (ZHANG SHULI MICHELE)	2,306,000	1.73
9	FUNG KOON YAU	1,428,000	1.07
10	RAFFLES NOMINEES (PTE) LTD	1,178,600	0.88
11	DBS NOMINEES PTE LTD	1,100,200	0.83
12	YEO KAI HOE	1,061,289	0.80
13	OCBC NOMINEES SINGAPORE PTE LTD	506,000	0.38
14	LIAU BIN BIN	444,296	0.33
15	LEE SIEW TIONG	352,000	0.26
16	LIM AND TAN SECURITIES PTE LTD	300,000	0.23
17	CHAN KHAI LEONG	299,000	0.22
18	OCBC SECURITIES PRIVATE LTD	286,000	0.21
19	PHILLIP SECURITIES PTE LTD	232,100	0.17
20	ONG AH INN	200,000	0.15
	TOTAL	126,712,554	95.05

STATISTICS OF SHAREHOLDING

As at 7 March 2019

SUBSTANTIAL SHAREHOLDERS AS AT 7 MARCH 2019

	DIRECT INTEREST		DEEMED INTEREST	
	NO. OF SHARES	%	NO. OF SHARES	%
CHEW CHOON TEE	46,247,416	34.69	444,296	0.33
TAN BOCK CHIA	25,435,083	19.08	–	–
CHORI CO., LTD	–	–	39,976,670	29.99
TORAY INDUSTRIES, INC	–	–	39,976,670	29.99

Notes:

- 1) Chew Choon Tee is deemed to have an interest in the 444,296 shares held in the name of his spouse, Liau Bin Bin, by virtue of Section 7 of the Companies Act Cap. 50.
- 2) 9,330,000 shares of Chew Choon Tee are held through nominees.
- 3) 10,000,000 shares of Tan Bock Chia are held through nominees.
- 4) 39,976,670 shares of Chori Co., Ltd are held under the custodian account of Chori Co., Ltd. maintained with Citibank Nominees Singapore Pte. Ltd.
- 5) Deemed interest arising from 39,976,670 shares held by Chori Co., Ltd. Toray Industries, Inc owns 51.25% of the issued share capital of Chori Co., Ltd.

PERCENTAGE OF SHAREHOLDINGS IN PUBLIC HANDS

15.83% of the Company issued paid-up capital is held in the hands of public. Accordingly, the Company had complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 11 Tuas Link 1, Singapore 638588 on Monday, 15 April 2019 at 10.00 a.m. to transact the following business:–

AS ORDINARY BUSINESS

1. To receive and adopt the Statement By Directors and Audited Financial Statements of the Company for the financial year ended 31 December 2018 together with the Auditor's Report thereon. **(Resolution 1)**
2. To declare a final tax exempt dividend of 0.8 cent per share for the financial year ended 31 December 2018 (2017: final tax exempt dividend of 0.7 cent per share). **(Resolution 2)**
3. To approve Directors' fees of S\$146,000 for the financial year ending 31 December 2019 (2018: S\$146,000). **(Resolution 3)**
4. To re-elect Mr Chew Choon Tee who is retiring pursuant to Article 104 of the Company's Constitution. **(Resolution 4)**

Mr Chew Choon Tee, will upon re-election as a Director of the Company, continue to serve as the Executive Chairman and Managing Director and as a member of the Nominating Committee.

Key information on Mr Chew Choon Tee is found on page 17 of the Company's 2018 annual report.
5. To re-elect Mr Lee Bon Leong who is retiring pursuant to Article 104 of the Company's Constitution. **(Resolution 5)**

Mr Lee Bon Leong will, upon re-election as a Director of the Company, continue to serve as an Independent Director, chairman of the Nominating Committee and members of the Audit Committee and Remuneration Committee. Mr Lee Bon Leong is considered independent for the purpose of Rule 704(7) of the Listing Manual of the Singapore Exchange Securities Trading Limited Section B: Rules of Catalist (the "Catalist Rules").

Key information on Mr Lee Bon Leong is found on page 20 of the Company's 2018 annual report.
6. To re-elect Mr Tatsuyuki Sakoda who is retiring pursuant to Article 108 of the Company's Constitution. **(Resolution 6)**

Mr Tatsuyuki Sakoda will, upon re-election as a Director of the Company, continue to serve as the Non-Executive Director.

Key information on Mr Tatsuyuki Sakoda is found on page 22 of the Company's 2018 annual report.
7. To re-appoint Messrs RSM Chio Lim LLP as auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 7)**

NOTICE OF ANNUAL GENERAL MEETING

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following Ordinary Resolutions with or without any modifications:–

8. Authority to allot and issue shares and convertible securities **(Resolution 8)**

- (a) “That pursuant to Section 161 of the Companies Act, Cap. 50, and Rule 806 of the Catalist Rules, authority be and is hereby given to the Directors of the Company at any time to such persons and upon such terms and for such purposes as the Directors may in their absolute discretion deem fit, to:
- (i) issue and allot shares in the capital of the Company (“Shares”) whether by way of rights, bonus or otherwise;
 - (ii) make or grant offers, agreements or options (collectively, “Instruments”) that might or would require Shares to be issued or other transferable rights to subscribe for or purchase Shares including but not limited to the creation and issue of warrants, debentures or other instruments convertible into Shares;
 - (iii) issue additional Instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalisation issues; and
- (b) (notwithstanding the authority conferred by the shareholders may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the authority was in force,

provided always that

- (i) the aggregate number of Shares to be issued pursuant to this resolution (including Shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) does not exceed 100% of the total number of issued shares excluding treasury shares and subsidiary holdings of the Company, of which the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) to be issued other than on a pro rata basis to shareholders of the Company does not exceed 50% of the total number of issued shares excluding treasury shares of the Company.

For the purpose of this resolution, the total number of issued shares excluding treasury shares is based on the Company’s total number of issued shares excluding treasury shares and subsidiary holdings at the time this resolution is passed, after adjusting for;

- (a) new shares arising from the conversion or exercise of convertible securities, or
- (b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time this resolution is passed provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Catalist Rules, and
- (c) any subsequent bonus issue, consolidation or subdivision of the Company’s shares, and

NOTICE OF ANNUAL GENERAL MEETING

- (ii) such authority shall, unless revoked or varied by the Company at a general meeting, continue in force until the conclusion of the next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.”

[See Explanatory Note (i)]

9. To approve the renewal of Interested Person Transactions Mandate

(Resolution 9)

“That

- (a) approval be and is hereby given for the purposes of Chapter 9 of the Catalist Rules (“Chapter 9”), for the Company, its subsidiaries and associated companies (if any) that are considered to be “entities at risk” under Chapter 9, or any of them, to enter into any of the transactions falling within the types of interested person transactions described in the Appendix to the Company’s Letter to Shareholders dated 22 March 2019 (the “Letter”), with any party who is of the class of interested persons described in the Appendix to the Letter provided that such transactions are made on normal commercial terms and are not prejudicial to the interests of the Company and its minority shareholders and in accordance with the Company’s review procedures for such interested person transactions (the “IPT Mandate”);
- (b) the IPT Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier; and
- (c) the Directors of the Company and each of them be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they and/or each of them may consider expedient, necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution as they or each of them may in their or each of their absolute discretion deem fit in the interests of the Company.”

10. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION

Mr Chew Choon Tee, Mr Lee Bon Leong and Mr Tatsuyuki Sakoda are the Directors seeking re-election at the forthcoming Annual General Meeting of the Company to be convened on 15 April 2019 (collectively, the “Retiring Directors” and each a “Retiring Director”).

Pursuant to Rule 720(5) of the Catalist Rules, the additional information relating to the Retiring Directors as set out in Appendix 7F to the Catalist Rules not otherwise disclosed in the Company’s 2018 annual report is set out below:

	Chew Choon Tee	Lee Bon Leong	Tatsuyuki Sakoda
(a) whether at any time during the last 10 years, an application or a petition under any bankruptcy laws of any jurisdiction was filed against him or against a partnership of which he was a partner at the time he was a partner or at any time within two (2) years from the date he ceased to be a partner;	No	No	No

NOTICE OF ANNUAL GENERAL MEETING

(b) whether at any time during the last 10 years an application or petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within two (2) years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency;	No	No	No
(c) whether there is any unsatisfied judgment against him;	No	No	No
(d) whether he has been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose;	No	No	No
(e) whether he has been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings which he is aware of) for such breach;	No	No	No
(f) whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities and futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings which he is aware of) involving an allegation of fraud, misrepresentation or dishonesty on his part;	No	No	No
(g) whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust;	No	No	No
(h) whether he has been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part in any way directly or indirectly in the management of any entity or business trust;	No	No	No
(i) whether he has been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity;	No	No	No

NOTICE OF ANNUAL GENERAL MEETING

<p>(j) whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:</p> <p>(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or</p> <p>(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or</p> <p>(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or</p> <p>(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities and futures industry in Singapore or elsewhere,</p> <p>in connection with any matter concerning or arising during the period when he was so concerned with the entity or business trust.</p>	No	No	No
<p>(k) whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?</p>	No	No	No

NOTICE OF BOOKS CLOSURE

NOTICE IS HEREBY GIVEN that subject to approval being obtained at the Annual General Meeting to be held at 11 Tuas Link 1, Singapore 638588 on Monday, 15 April 2019 at 10.00 a.m.

1. A final tax exempt dividend of 0.8 cent per share for the financial year ended 31 December 2018 will be paid on 24 May 2019.
2. The Share Transfer Books and Register of Members of the Company will be closed on 13 May 2019 for preparation of dividend warrants. Duly completed and stamped transfers received by the Company's Share Registrar, Tricor Barbinder Share Registration Services (a division of Tricor Singapore Pte. Ltd.), 80 Robinson Road #02-00, Singapore 068898, up to 5.00 p.m. on 10 May 2019 will be registered to determine members' entitlements to the proposed dividend. Members (being depositors) whose securities account with the Central Depository (Pte) Limited are credited with shares as at 5.00 p.m. on 10 May 2019 will be entitled to the payment of the proposed dividend.

BY ORDER OF THE BOARD

Kwok Hwee Peng
Toon Choi Fan
Company Secretaries

22 March 2019

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:-

- (i) The ordinary resolution in item no. 8 is to authorise the Directors of the Company from the date of this Meeting until the next Annual General Meeting to issue shares and convertible securities in the Company up to an amount not exceeding in aggregate 100% of the issued share capital of the Company of which the total number of shares and convertible securities issued other than on a pro-rata basis to existing shareholders shall not exceed 50% of the issued share capital of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company. This authority will, unless revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.

Notes:-

- (1) Except for a member who is a Relevant Intermediary as defined under section 181(6) of the Companies Act, Chapter 50, a member of the Company entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies in his stead. Relevant Intermediary is entitled to appoint more than two proxies to attend and vote in this Meeting.
- (2) A proxy need not be a member of the Company.
- (3) If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.
- (4) The instrument appointing a proxy must be deposited at the office of the Company's Share Registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road, #11-02 Singapore 068898 not less than forty-eight (48) hours before the time appointed for the Meeting.

Personal Data Privacy:-

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting of the Company and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting of the Company (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting of the Company (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes") and (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

MEGACHEM LIMITED

(Company Registration No.: 198803293M)
(Incorporated in the Republic of Singapore)

PROXY FORM

IMPORTANT

1. Pursuant to Section 181(1C) of the Companies Act, Chapter 50 (the "Act"), Relevant Intermediaries may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors are requested to contact their respective Agent Banks for any queries they may have with regard to their appointment as proxies.

I/We _____ (Name) NRIC/Passport No _____

of _____

being *a member/members of Megachem Limited (the "Company"), hereby appoint

Name	Address	NRIC/ Passport No.	Proportion of shareholdings to be represented by proxy (%)

*and/or

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as *my/our *proxy/proxies to vote for *me/us on *my/our behalf at the Annual General Meeting of the Company to be held at 11 Tuas Link 1, Singapore 638588 on 15 April 2019 at 10.00 a.m. and at any adjournment thereof.

*I/we direct *my/our *proxy/proxies to vote for or against the Ordinary Resolutions to be proposed at the Annual General Meeting as indicated with an "X" in the spaces provided hereunder. If no specific directions as to voting are given, the *proxy/proxies will vote or abstain from voting at *his/their discretion.

No.	Ordinary Resolutions	For	Against
1.	To receive and adopt the Statement By Directors and Audited Financial Statements of the Company for the financial year ended 31 December 2018 together with the Auditor's Report thereon.		
2.	To declare a final tax exempt dividend of 0.8 cent per share for the financial year ended 31 December 2018.		
3.	To approve Directors' fees of S\$146,000 for the financial year ending 31 December 2019.		
4.	To re-elect Mr Chew Choon Tee pursuant to Article 104 of the Company's Constitution.		
5.	To re-elect Mr Lee Bon Leong pursuant to Article 104 of the Company's Constitution.		
6.	To re-elect Mr Tatsuyuki Sakoda pursuant to Article 108 of the Company's Constitution.		
7.	To re-appoint Messrs RSM Chio Lim LLP as auditors of the Company and to authorise the Directors to fix their remuneration.		
8.	To authorise Directors to issue shares pursuant to Section 161 of the Companies Act, Chapter 50.		
9.	To approve the renewal of Interested Person Transactions Mandate.		

Dated this _____ day of _____ 2019

Total Number of Shares Held



Signature(s) of Member(s)/Common Seal

* Delete accordingly

IMPORTANT. Please read notes overleaf

Notes:-

1. Except for a member who is a Relevant Intermediary as defined under Section 181(6) of the Companies Act, Chapter 50 of Singapore (the "Companies Act"), a member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. Such proxy need not be a member of the Company.
2. Where a member of the Company appoints two (2) proxies, he shall specify the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each such proxy.
3. Pursuant to Section 181(1C) of the Companies Act, a member who is a Relevant Intermediary is entitled to appoint more than two proxies to attend, speak and vote at the meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the proxy form.
4. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its attorney or duly authorised officer.
5. A corporation which is a member of the Company may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with its Constitution and Section 179 of the Companies Act.
6. The instrument appointing proxy or proxies, together with the power of attorney or other authority (if any) under which it is signed, or notarially certified copy thereof, must be deposited at the office of the Company's Share Registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road, #11-02 Singapore 068898 not less than forty-eight (48) hours before the time set for the Annual General Meeting.
7. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert the number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members of the Company, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by the member of the Company.
8. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of members of the Company whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have shares entered against their names in the Depository Register seventy-two (72) hours before the time appointed for holding the Annual General Meeting as certified by The Central Depository (Pte) Limited to the Company.
9. A Depositor shall not be regarded as a member of the Company entitled to attend the Annual General Meeting and to speak and vote thereat unless his name appears on the Depository Register seventy-two (72) hours before the time set for the Annual General Meeting.
10. An investor who buys shares using CPF monies ("CPF Investor") and/or SRS monies ("SRS Investor") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Annual General Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Annual General Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Annual General Meeting.

PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 22 March 2019.

AFFIX
STAMP

The Company Secretary
MEGACHEM LIMITED
c/o Tricor Barbinder Share Registration Services
80 Robinson Road #11-02
Singapore 068898

PAPERS USED

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MegaChem

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