



## MEGACHEM LIMITED

# Un-audited Financial Statements and Dividend Announcement

For The Half Year Ended  
30 June 2019

This announcement has been prepared by the Company and the contents have been reviewed by the Company's Sponsor, SAC Capital Private Limited (the "Sponsor"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("Exchange").

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

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## TABLE OF CONTENTS

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT	1
BALANCE SHEETS	3
CONSOLIDATED CASH FLOW STATEMENT	5
STATEMENTS OF CHANGES IN EQUITY	6
ACCOUNTING POLICIES	8
EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY	9
NET ASSET VALUE PER SHARE	9
REVIEW OF PERFORMANCE	10
RISKS	17
PROSPECTS	18
DIVIDENDS	19
INTERESTED PERSON TRANSACTION	20
UNDERTAKING PURSUANT TO RULE 720(1)	20
NEGATIVE ASSURANCE	21



## UNAUDITED RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2019

The directors of Megachem Limited are pleased to advise the following unaudited results of the Group for the half year ended 30 June 2019.

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

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2019

	For the half year	For the half year	Variance	
	ended 30 June 2019	ended 30 June 2018	Favourable/(Unfavourable)	
	S\$	S\$	S\$'000	%
Revenue	55,778,041	59,025,557	(3,248)	(5.5%)
Cost of sales	<u>(41,703,066)</u>	<u>(44,083,972)</u>	2,381	5.4%
<b>Gross profit</b>	<b>14,074,975</b>	14,941,585	(867)	(5.8%)
Other income	223,121	358,477	(135)	(37.8%)
Distribution costs	(7,731,271)	(7,683,201)	(48)	(0.6%)
Administrative expenses	(2,703,845)	(2,654,544)	(49)	(1.9%)
Other operating expenses	(1,274,913)	(1,961,147)	686	35.0%
Finance costs	(497,358)	(348,856)	(149)	(42.6%)
Share of profit of associated companies	475,713	380,646	95	25.0%
<b>Profit before income tax</b>	<b>2,566,422</b>	3,032,960	(467)	(15.4%)
Income tax expense	<u>(550,866)</u>	<u>(634,706)</u>	84	13.2%
<b>Net profit</b>	<b>2,015,556</b>	<b>2,398,254</b>	(383)	(16.0%)
Other comprehensive income:				
Exchange differences on translating foreign operations, net of tax	106,086	522,099	(416)	(79.7%)
<b>Total comprehensive income</b>	<b>2,121,642</b>	<b>2,920,353</b>	(799)	(27.3%)
Net profit/(loss) attributable to:				
Equity holders of the Company	1,921,556	2,263,705	(342)	(15.1%)
Non-controlling interests	<u>94,000</u>	<u>134,549</u>	(41)	(30.1%)
<b>Net profit</b>	<b>2,015,556</b>	<b>2,398,254</b>	(383)	(16.0%)
Total comprehensive income/(loss) attributable to:				
Equity holders of the Company	2,046,903	2,761,995	(715)	(25.9%)
Non-controlling interests	<u>74,739</u>	<u>158,358</u>	(84)	(52.8%)
<b>Total comprehensive income</b>	<b>2,121,642</b>	<b>2,920,353</b>	(799)	(27.3%)
Earnings per share of profit attributable to equity holders of the Company during the financial year				
- basic and diluted	<u>1.44 cents</u>	<u>1.70 cents</u>	(0.26)	(15.3%)

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

	For the half year ended 30 June 2019 S\$	For the half year ended 30 June 2018 S\$
<u>Other income</u>		
Bad debt recovered	74,016	40,734
Change in fair value of financial assets at fair value through profit or loss	28,072	142,314
Dividend income	2,934	-
Gain on disposal of property, plant and equipment	4,806	44,748
Grant income	16,737	78,787
Interest income from banks	88,265	43,465
Rental income	8,291	8,429
	<u>223,121</u>	<u>358,477</u>
Change in fair value of financial assets at fair value through profit or loss		
- forward foreign exchange contracts	28,072	142,314
- listed equity security	-	(200,000)
Change in fair value of financial liabilities at fair value through profit or loss		
- forward foreign exchange contracts	(12,989)	(12,260)
Depreciation and amortisation	(616,777)	(457,454)
Interest on borrowings	(497,358)	(348,856)
Impairment of trade receivables	(82,295)	(152,768)
Net foreign exchange loss	(22,781)	(536,678)
Write down/(write back) of inventory	(11,690)	68,651
Adjustment for over provision for tax in respect of prior reporting years	14,690	42,465
Gain on disposal of property plant and equipment	4,806	44,748



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

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019**

	<u>Group</u>		<u>Company</u>	
	30 June 2019 S\$	31 December 2018 S\$	30 June 2019 S\$	31 December 2018 S\$
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	10,331,524	10,711,685	1,302,459	1,453,931
Right-of-use assets	2,835,366	-	1,152,128	-
Investment property	77,031	79,165	-	-
Investments in subsidiaries	-	-	5,871,772	5,871,772
Investments in associated companies	6,150,723	5,760,592	2,798,756	2,798,756
Transferable club memberships	26,839	27,012	4,001	4,001
Deferred tax assets	267,284	261,574	-	-
	<u>19,688,767</u>	<u>16,840,028</u>	<u>11,129,116</u>	<u>10,128,460</u>
<b>Current assets</b>				
Inventories	28,463,853	26,086,640	11,530,438	11,333,191
Trade and other receivables	22,725,207	24,082,338	17,924,437	17,937,409
Financial assets at fair value through profit or loss	367,434	383,606	343,561	340,145
Other current assets	2,111,417	2,118,083	447,561	212,086
Cash and bank balances	13,062,741	12,199,484	1,819,746	1,669,521
	<u>66,730,652</u>	<u>64,870,151</u>	<u>32,065,743</u>	<u>31,492,352</u>
<b>Total assets</b>	<u>86,419,419</u>	<u>81,710,179</u>	<u>43,194,859</u>	<u>41,620,812</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves attributable to equity holders of the Company</b>				
Share capital	15,892,028	15,892,028	15,892,028	15,892,028
Other reserves	(4,093,833)	(4,219,180)	-	-
Retained earnings	36,340,866	35,485,710	8,040,875	7,996,206
	<u>48,139,061</u>	<u>47,158,558</u>	<u>23,932,903</u>	<u>23,888,234</u>
<b>Non-controlling interests</b>	<u>2,765,991</u>	<u>2,781,126</u>	<u>-</u>	<u>-</u>
<b>Total equity</b>	<u>50,905,052</u>	<u>49,939,684</u>	<u>23,932,903</u>	<u>23,888,234</u>
<b>Non-current liabilities</b>				
Lease liabilities	2,571,632	-	1,149,636	-
Borrowings	942,435	1,309,229	-	-
	<u>3,514,067</u>	<u>1,309,229</u>	<u>1,149,636</u>	<u>-</u>
<b>Current liabilities</b>				
Current income tax liabilities	251,855	215,584	99,718	48,612
Trade and other payables	11,236,087	12,036,224	6,257,767	6,212,188
Lease liabilities	290,586	-	12,952	-
Borrowings	20,209,044	18,196,152	11,738,919	11,468,755
Financial liabilities at fair value through profit or loss	12,728	13,306	2,964	3,023
	<u>32,000,300</u>	<u>30,461,266</u>	<u>18,112,320</u>	<u>17,732,578</u>
<b>Total liabilities</b>	<u>35,514,367</u>	<u>31,770,495</u>	<u>19,261,956</u>	<u>17,732,578</u>
<b>Total equity and liabilities</b>	<u>86,419,419</u>	<u>81,710,179</u>	<u>43,194,859</u>	<u>41,620,812</u>

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

Amount repayable in one year or less, or on demand

As at 30 June 2019		As at 31 December 2018	
Secured	Unsecured	Secured	Unsecured
S\$3,896,444	S\$16,312,600	S\$2,832,814	S\$15,363,338

Amount repayable after one year

As at 30 June 2019		As at 31 December 2018	
Secured	Unsecured	Secured	Unsecured
S\$942,435	-	S\$1,309,229	-

**Details of collateral**

The secured borrowings were collateralized on:

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



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

**CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 30 JUNE 2019**

	For the half year ended 30 June 2019 S\$	For the half year ended 30 June 2018 S\$
<b>Cash flows from operating activities</b>		
Net profit	2,015,556	2,398,254
Adjustments for:		
Change in fair value of financial assets	-	200,000
Depreciation charge	616,777	457,454
Dividend income	(2,934)	-
Gain on disposal of property, plant and equipment	(4,806)	(44,748)
Share of profit of associated companies	(475,713)	(380,646)
Income tax expense	550,866	634,706
Interest income	(88,265)	(43,465)
Finance costs	497,358	348,856
Operating cash flow before working capital changes	<u>3,108,839</u>	<u>3,570,411</u>
Change in operating assets and liabilities		
Trade and other receivables and other current assets	1,289,713	(1,557,978)
Inventories	(2,513,895)	(2,197,286)
Financial assets at fair value through profit or loss	(28,072)	(137,990)
Trade and other payables	(638,637)	(496,635)
Financial liabilities at fair value through profit or loss	12,989	(4,742)
Foreign exchange adjustment differences	(95,145)	(27,141)
Cash from/(used in) operations	<u>1,135,792</u>	<u>(851,361)</u>
Income tax paid	(589,708)	(766,265)
Interest received	88,732	43,465
<b>Net cash from/(used in) operating activities</b>	<u>634,816</u>	<u>(1,574,161)</u>
<b>Cash flows from investing activities</b>		
Dividends received from associated company and listed equity	373,384	425,816
Purchase of property, plant and equipment	(78,657)	(482,470)
Proceeds from sale of property, plant and equipment	9,582	44,765
<b>Net cash from/(used in) investing activities</b>	<u>304,309</u>	<u>(11,889)</u>
<b>Cash flows from financing activities</b>		
Dividends paid	(1,066,400)	(933,100)
Dividends paid by subsidiary to non-controlling shareholders	(89,874)	-
Repayment of lease liabilities	(158,907)	-
Repayments of long term bank loans	(407,461)	(404,110)
(Repayments)/proceeds from bills payables	(195,156)	2,279,488
Proceeds from short term bank loans	2,316,931	2,437,056
Interest paid	(485,968)	(316,189)
<b>Net cash (used in)/from financing activities</b>	<u>(86,835)</u>	<u>3,063,145</u>
<b>Net increase in cash and cash equivalents held</b>	<b>852,290</b>	<b>1,477,095</b>
Cash and cash equivalents, statement of cash flow, beginning balance	12,199,484	9,344,937
Effects of exchange rate changes on cash and cash equivalents	(74,141)	67,462
<b>Cash and cash equivalents, statement of cash flow, ending balance</b>	<u><b>12,977,633</b></u>	<u><b>10,889,494</b></u>
Cash and cash equivalents comprised the followings:		
Cash and bank balances	13,062,741	10,889,494
Less: bank overdraft	(85,108)	-
	<u><b>12,977,633</b></u>	<u><b>10,889,494</b></u>



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

#### STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2019

	Attributable to equity holders of the Company					
	Total equity S\$	Parent Sub-total S\$	Share capital S\$	Other reserves S\$	Retained earnings S\$	Non-controlling interests S\$
<u>The Group</u>						
Curent year :						
<b>Opening balance at 1 January 2019</b>	49,939,684	47,158,558	15,892,028	(4,219,180)	35,485,710	2,781,126
Total comprehensive income for the reporting period	2,121,642	2,046,903	-	125,347	1,921,556	74,739
Final dividend relating to 2018 paid	(1,066,400)	(1,066,400)	-	-	(1,066,400)	-
Final dividends paid to non-controlling interests	(89,874)	-	-	-	-	(89,874)
<b>Closing balance at 30 June 2019</b>	<b>50,905,052</b>	<b>48,139,061</b>	<b>15,892,028</b>	<b>(4,093,833)</b>	<b>36,340,866</b>	<b>2,765,991</b>
Previous year :						
<b>Opening balance at 1 January 2018</b>	47,194,001	44,615,195	15,892,028	(4,548,918)	33,272,085	2,578,806
Total comprehensive income for the reporting period	2,920,353	2,761,995	-	498,290	2,263,705	158,358
Final dividend relating to 2017 paid	(933,100)	(933,100)	-	-	(933,100)	-
<b>Closing balance at 30 June 2018</b>	<b>49,181,254</b>	<b>46,444,090</b>	<b>15,892,028</b>	<b>(4,050,628)</b>	<b>34,602,690</b>	<b>2,737,164</b>



<u>The Company</u>	Total equity S\$	Share capital S\$	Retained earnings S\$
Current year :			
<b>Opening balance at 1 January 2019</b>	23,888,234	15,892,028	7,996,206
Total comprehensive income for the reporting period	1,111,069	-	1,111,069
Final dividend relating to 2018 paid	(1,066,400)	-	(1,066,400)
<b>Closing balance at 30 June 2019</b>	<u>23,932,903</u>	<u>15,892,028</u>	<u>8,040,875</u>
Previous year :			
<b>Opening balance at 1 January 2018</b>	24,837,363	15,892,028	8,945,335
Total comprehensive income for the reporting period	801,385	-	801,385
Final dividend relating to 2017 paid	(933,100)	-	(933,100)
<b>Closing balance at 30 June 2018</b>	<u>24,705,648</u>	<u>15,892,028</u>	<u>8,813,620</u>

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

There have been no changes in the Company's issued share capital since the end of the previous financial year reported on being 31 December 2018.

There were no unissued shares in the capital of the Company reserved for the exercise of any option nor were there any treasury shares as at the end of the financial periods ended 30 June 2019 and 30 June 2018.

There were no outstanding convertibles and subsidiary holdings as at the end of the financial periods ended 30 June 2019 and 30 June 2018.

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

The total number of issued ordinary shares, excluding treasury shares, as at the end of the financial period and year ended 30 June 2019 and 31 December 2018 was 133,300,000 shares.

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

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

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

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

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

The figures have not been audited or reviewed.

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

Not applicable.

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

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as those of the audited financial statements for the financial year ended 31 December 2018.

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

On 1 January 2019, the Group adopted the new and revised Singapore Financial Reporting Standards (International) ("SFRS(I)") and the related Interpretations to SFRS(I)s ("SFRS(I) INT") that are relevant to its operations and mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective SFRS(I) and SFRS(I) INT.

The adoption of the new and revised SFRS(I) has no material impact on the Group's financial statements except for SFRS(I) 16 Leases. Under the new financial reporting standard, for the lessee, almost all leases (except leases less than 12 months and leases of low-value assets) will be brought onto the Statement of Financial Position by recognizing a right-of-use asset and a corresponding liability. For the lessor, the accounting remains largely unchanged.

The Group recognized its existing operating lease arrangements (except leases less than 12 months and leases of low-value assets) where the Group is a lessee as right-of-use assets equal to its lease liabilities as at 1.1.2019 in accordance with SFRS(I) 16.

The nature of expenses related to the leases will correspondingly change. Operating rental expenses previously recognised in the Statement of Comprehensive Income will be replaced with depreciation charge for right-of-use asset and finance costs for lease liabilities.



Impact of change in accounting policy for leases on Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income

<b>Consolidated Statement of Financial Position</b>	Adjustment on 1 January 2019	
	Group S\$	Company S\$
Right-of-use assets	2,776,056	1,168,825
Lease liabilities	(2,776,056)	(1,168,825)

<b>Consolidated Statement of Comprehensive Income</b>	For half year ended 30 June 2019	
	Group S\$	increase/(decrease)
Rental expenses	(231,089)	
Depreciation of right-of-use	185,826	
Finance costs	72,182	

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

	<b>For the half year ended 30 June 2019</b>	For the half year ended 30 June 2018
Earnings per ordinary shares (in cents)		
a) Based on weighted average number of ordinary shares on issue	<b>1.44</b>	1.70
b) On a fully diluted basis	<b>1.44</b>	1.70
Weighted average number of ordinary shares in issue for earnings per share	<b>133,300,000</b>	133,300,000

**7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:**

- (a) current financial year reported on; and  
(b) immediately preceding financial year.

	<b>Group</b>		<b>Company</b>	
	<b>30 June 2019</b>	31 December 2018	<b>30 June 2019</b>	31 December 2018
Net asset value per ordinary share based on issued share capital (cents)	<b>36.11</b>	35.38	<b>17.95</b>	17.92
No of ordinary shares used in calculation	<b>133,300,000</b>	133,300,000	<b>133,300,000</b>	133,300,000



## 8. REVIEW OF PERFORMANCE

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

Profitability Highlights	H1 2018	H2 2018	H1 2019	Variance H1 2019 vs H2 2018		Variance H1 2019 vs H1 2018	
				Fav/(Unfav)	%	Fav/(Unfav)	%
Sales (S\$mil)	59.0	58.9	<b>55.8</b>	(3.1)	(5.2%)	(3.2)	(5.5%)
Gross profit (S\$mil)	14.9	14.5	<b>14.1</b>	(0.4)	(3.0%)	(0.9)	(5.8%)
Gross profit margin	25.3%	24.6%	<b>25.2%</b>	0.6% pts	na	(0.1% pts)	na
Total operating expenses and finance costs (S\$mil)	12.6	12.6	<b>12.2</b>	0.4	3.2%	0.4	3.5%
Other income (S\$'000)	358	65	<b>223</b>	159	245.4%	(135)	(37.8%)
Share of profit of associated companies (S\$'000)	381	391	<b>476</b>	85	21.7%	95	25.0%
Profit before income tax (S\$mil)	3.0	2.3	<b>2.6</b>	0.2	9.3%	(0.5)	(15.4%)
Net profit (S\$mil)	2.4	1.9	<b>2.0</b>	0.1	7.5%	(0.4)	(16.0%)
Net profit margin	4.1%	3.2%	<b>3.6%</b>	0.4% pts	na	(0.5% pts)	na
EBITDA (S\$mil)	3.8	3.1	<b>3.6</b>	0.5	14.9%	(0.2)	(5.4%)
EBITDA margin	6.4%	5.3%	<b>6.4%</b>	1.1% pts	na	-	-
Earnings per share attributable to the equity holders of the Company (cents)	1.70	1.36	<b>1.44</b>	0.08	5.9%	(0.26)	(15.3%)
Annualised return on equity (ROE)	9.7%	7.7%	<b>8.0%</b>	0.3% pts	na	(1.7% pts)	na

na : not applicable

### 8(a) PROFITABILITY ANALYSIS

#### 8(a)(i) Sales

	H1 2018	H2 2018	H1 2019	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
				H1 2019 vs H2 2018	H1 2019 vs H1 2018		
	S\$'000	S\$'000	S\$'000	S\$'000	%	S\$'000	%
ASEAN	38,132	37,723	<b>36,561</b>	(1,162)	(3.1)	(1,571)	(4.1)
North Asia	8,302	7,761	<b>6,795</b>	(966)	(12.4)	(1,507)	(18.2)
Europe	3,838	4,514	<b>4,897</b>	383	8.5	1,059	27.6
Middle East	2,876	3,540	<b>3,367</b>	(173)	(4.9)	491	17.1
South Asia	2,494	2,683	<b>2,280</b>	(403)	(15.0)	(214)	(8.6)
Australia	2,907	2,545	<b>1,770</b>	(775)	(30.5)	(1,137)	(39.1)
America	477	86	<b>106</b>	20	24.6	(371)	(77.7)
Africa	-	-	<b>2</b>	2	100.0	2	100.0
<b>Total</b>	<b>59,026</b>	<b>58,852</b>	<b>55,778</b>	<b>(3,074)</b>	<b>(5.2)</b>	<b>(3,248)</b>	<b>(5.5)</b>



## **Geographic Segment Sales Analysis**

### H1 2019 vs H2 2018

Most of the markets recorded lower sales in the first half of 2019 (“H1 2019”) as compared to the second half of 2018 (“H2 2018”). The biggest decline in sales were from the ASEAN markets, which fell by S\$1.2 million, and was followed by North Asia and Australia markets with decrease of S\$1.0 million and S\$0.8 million respectively. Sales to South Asia and Middle East markets fell by a smaller magnitude.

On the other hand, sales to Europe markets continued to expand at the growth rate of 8.5% or S\$0.4 million in H1 2019.

This resulted in an overall decrease of 5.2% in total sales to S\$55.8 million in H1 2019 vis-à-vis sales of S\$58.9 million in H2 2018.

### H1 2019 vs H1 2018

As compared to the first half of 2018 (“H1 2018”), sales decreased by S\$3.2 million or 5.5% as compared to H1 2018. Similar trends were noted across the various markets. Sales to ASEAN, North Asia and Australia fell by S\$1.6 million, S\$1.5 million and S\$1.1 million respectively.

This was partly offset by higher sales in Europe and Middle East markets of S\$1.1 million and S\$0.5 million respectively.

## **Business Activity Segment Sales Breakdown**

	H1 2018	H2 2018	H1 2019	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2019 vs H2 2018	%	H1 2019 vs H1 2018	%
Distribution activity	57,278	56,875	<b>54,103</b>	(2,772)	(4.9)	(3,175)	(5.5)
Manufacturing activity	1,748	1,977	<b>1,675</b>	(302)	(15.3)	(73)	(4.2)
Total Sales	59,026	58,852	<b>55,778</b>	(3,074)	(5.2)	(3,248)	(5.5)

### H1 2019 vs H2 2018

### H1 2019 vs H1 2018

Both segments record lower sales in H1 2019.

H1 2019 sales from distribution segments declined by S\$2.8 million or 4.9% and S\$3.2 million or 5.5% over H2 2018 and H1 2018 respectively because of waning business confidence amongst customers and softer prices, contributing the most to the overall decrease in sales.

Sales from the contract manufacturing segment fell by a smaller magnitude over H2 2018 and H1 2018 respectively due to weaker market conditions.

## **8(a)(ii) Gross profit**

### H1 2019 vs H2 2018

Gross profit margin for H1 2019 was higher by 0.6%-point as compared to H2 2018 due partly to lower inventory write down and partly because of higher gross profit margins across certain markets such as North Asia and Middle East.

However, the improved gross profit margin was unable to compensate for the lower sales achieved in H1 2019. As a result, gross profit decreased marginally by S\$0.4 million or 3.0% over H2 2018.



### H1 2019 vs H1 2018

Although gross profit margin for H1 2019 (25.2%) was relatively unchanged as compared to H1 2018 (25.3%), lower sales caused the decrease in gross profit of S\$0.9 million or 5.8%.

### **8(a)(iii) Other income**

	H1 2018	H2 2018	H1 2019	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2019 vs H2 2018	H1 2019 vs H1 2018	S\$'000	%
Bad debt recovered	41	73	<b>74</b>	1	1.9	33	81.7
Change in fair value of financial assets at fair value through profit or loss							
- forward foreign exchange contracts	142	(97)	<b>28</b>	125	128.9	(114)	(80.3)
Grant income	79	-	<b>17</b>	17	100.0	(62)	(78.8)
Gain on disposal of plant and equipment	45	-	<b>5</b>	5	100.0	(40)	(89.3)
Interest income	43	79	<b>88</b>	9	11.4	45	103.1

### H1 2019 vs H2 2018

Other income in H1 2019 increased by S\$159,000 or slightly more than double mainly due to fair value gain from forward exchange contracts recorded in H1 2019 vis-à-vis a reduction in fair value gain from forward exchange contracts recorded in H2 2018.

In addition, grant income and gain on disposal of plant and equipment was recorded in H1 2019 which was absent in H2 2018.

### H1 2019 vs H1 2018

Year-on-year, other income was lower by S\$135,000 or 37.8% mainly due to lower fair value gain from forward exchange contracts of S\$114,000, lower grant income of S\$62,000 and lower gain on disposal of plant and equipment of S\$40,000.

This was partially offset by higher interest income of S\$45,000 and higher bad debt recovered of S\$33,000.

## 8(a)(iv) Operating expenses

### H1 2019 vs H2 2018

	H1 2018	H2 2018	H1 2019	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	H1 2019 vs H2 2018	H1 2019 vs H1 2018					
	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	-	40	100.0	200	100.0
Employee remuneration and related expenses	7,170	7,269	7,151	118	1.6	19	0.3
Depreciation of right-of-use assets	-	-	186	(186)	(100.0)	(186)	(100.0)
Impairment of trade receivables	153	185	82	103	55.6	71	46.1
Net foreign exchange loss	537	211	23	188	89.2	514	95.8
Travelling and transport	519	538	435	103	19.2	84	16.1
Rental	242	239	72	167	70.2	170	70.5
Warehouse storage charges	1,091	1,244	1,258	(14)	(1.2)	(167)	(15.3)

Total operating expenses of S\$11.7 million incurred in H1 2019 was lower by S\$0.5 million or 4.1% as compared to H2 2018.

The main reasons contributing to the decrease were:

- (i) lower net foreign exchange loss of S\$0.2 million;
- (ii) lower employee remuneration of S\$0.1 million; and
- (iii) lower impairment of trade receivables and travelling and transport of S\$0.1 million each

The decrease in rental expenses of S\$0.2 million was due to the adoption of SFRS(I) 16 which requires the recognition of right-of-use asset for operating lease arrangement. Correspondingly, depreciation of right-of-use assets of S\$0.2 million was recorded in H1 2019.

### H1 2019 vs H1 2018

Lower net foreign exchange loss of S\$0.5 million and absence of fair value loss on listed equity of S\$0.2 million were the main reasons that led to the decrease in total operating expenses in H1 2019.

Travelling and transport expenses and impairment of trade receivables were also lower by S\$0.1 million each.

The decrease was partially offset by higher warehouse storage charges of S\$0.2 million caused by higher inventory holdings.

The decrease in rental expenses of S\$0.2 million was due to the adoption of SFRS(I) 16 which requires the recognition of right-of-use asset for operating lease arrangements. Correspondingly, depreciation of right-of-use assets of S\$0.2 million was recorded in H1 2019.

As a result, total operating expenses decreased by S\$0.6 million or 4.8% year-on-year.

### 8(a)(v) Finance costs

Finance costs comprised the following:-

	H1 2018	H2 2018	H1 2019	Variance Fav/(Unfav)		Variance Fav/(Unfav)	
	S\$'000	S\$'000	S\$'000	H1 2019 vs H2 2018	%	H1 2019 vs H1 2018	%
Bills payables	231	262	<b>272</b>	(10)	(4.1)	(41)	(17.9)
Bank loans	118	139	<b>153</b>	(14)	(9.3)	(35)	(29.6)
Leases for right-of-use assets	-	-	<b>72</b>	(72)	(100.0)	(72)	(100.0)
Total finance costs	349	401	<b>497</b>	(96)	(23.9)	(148)	(42.6)

#### H1 2019 vs H2 2018 H1 2019 vs H1 2018

In H1 2019, finance costs on lease liabilities in relation to operating lease arrangements were recorded in accordance with SFRS(I) 16.

Excluding the finance costs on leases, finance costs for H1 2019 would have increased by S\$24,000 or 5.9% and S\$76,000 or 21.9% respectively over H2 2018 and H1 2018 due to higher interest rates and an increase in borrowings.

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

#### H1 2019 vs H2 2018

Due to the absence of impairment loss for the manufacturing segment, our share of profit of associated companies increased by S\$0.1 million vis-à-vis H2 2018.

#### H1 2019 vs H1 2018

Our share of profit of associated companies in H1 2019 increased by S\$0.1 million as compared to H1 2018 mainly due to profit contribution from the acquired distribution business.

### 8(a)(vii) Profit before income tax and net profit

#### H1 2019 vs H2 2018

Although gross profit was lower, the impact was offset by lower total operating expenses and finance costs, higher other income and higher share of profits of associated companies.

This resulted in an increase in profit before tax and net profit by S\$0.2 million or 9.3% and S\$0.1 million or 7.5% respectively vis-à-vis H2 2018.

Correspondingly, H1 2019 EBITDA of S\$3.6 million was higher by S\$0.5 million or 14.9% over H2 2018.





#### H1 2019 vs H1 2018

On the other hand, profit before tax and net profit fell by S\$0.5 million or 15.4% and S\$0.4 million or 16.0% respectively as compared to H1 2018. Similarly, EBITDA decreased by S\$0.2 million or 5.4%.

This was mainly due to lower sales and hence lower gross profit.

The reduction was partly cushioned by S\$0.6 million lower total net losses in foreign exchange and fair value of forward contracts and listed equity.

#### **8(a)(viii) Total comprehensive income**

##### H1 2019 vs H2 2018

##### H1 2019 vs H1 2018

Translation gain recorded for H1 2019 was largely due to the appreciation of Thai Baht while the translation gain recorded for H1 2018 was mainly due to the appreciation of Malaysian Ringgit. However, the Malaysian Ringgit reversed its trend in H2 2018, resulting in translation loss in H2 2018.

As a result, comprehensive income for H1 2019 of S\$2.1 million increased by S\$0.4 million or 25.4% as compared to H2 2018 due to translation gain of S\$0.1 million recorded in H1 2019 as opposed to translation loss of S\$0.2 million in H2 2018.

Year-on-year, comprehensive income for H1 2019 of S\$2.1 million decreased by S\$0.8 million or 27.3% due to S\$0.4 million lower translation gain recorded in H1 2019.

## 8(b) BALANCE SHEET ANALYSIS

Balance Sheet Highlights	As at		Variance
	31 December 2018	30 June 2019	30 June 2019 vs 31 December 2018
			Fav/(Unfav)
Cash (S\$'mil)	12.2	<b>13.1</b>	0.9
Borrowings (S\$'mil)	19.5	<b>21.2</b>	(1.7)
Current ratio (times)	2.1	<b>2.1</b>	-
Gearing ratio (times)	0.41	<b>0.44</b>	(0.03)
Net assets per share attributable to equity holders of the Company (cents)	35.38	<b>36.11</b>	0.73
Inventory turnover (days)	118	<b>133</b>	(15)
Trade receivables turnover (days)	84	<b>77</b>	7
Trade payable turnover (days)	35	<b>28</b>	(7)

### Property, plant and equipment

There was no significant change in the carrying value of property, plant and equipment as at 30 June 2019 and 31 December 2018. The decrease in carry value was mainly due to depreciation charge of S\$0.4 million in the current period.

### Right-of-use assets

Upon the adoption of SFRS(I) 16, right-of-use assets of S\$2.8 million was recognized as at 1.1.2019. The carrying value remained relatively unchanged at S\$2.8 million as at 30 June 2019 as new lease arrangements recognized of S\$0.3 million were offset by depreciation charge of S\$0.2 million in H1 2019.

### Investment in associated companies

The increase in carrying value of our associated companies by S\$0.4 million or 6.8% was mainly due to positive contribution from operation for the current year of S\$0.5 million and translation gain of S\$0.3 million offset by dividend return of S\$0.4 million.

### Deferred tax assets

There was no significant change in the carrying value of deferred tax assets as at 30 June 2019 and 31 December 2018.

### Trade and other receivables

Net third party trade receivables decreased by S\$1.4 million or 6.0% from S\$23.5 million as at 31 December 2018 to S\$22.1 million as at 30 June 2019. The reduction was because of slower sales in H1 2019 as compared to H2 2018.

On the other hand, turnover days improved to 77 days from 84 days for the full year of 2018.

### Inventories

Inventories increased by S\$2.4 million or 9.1% from S\$26.1 million as at 31 December 2018 to S\$28.5 million as at 30 June 2019. The built up of inventory balance was mainly due to the slower sales in H1 2019. Hence, inventory turnover days increased to 133 days as compared to 118 days for the full year of 2018.

### Other current assets

There was no significant change in the carrying value of other current assets as at 30 June 2019 and 31 December 2018. Higher prepayment of operating expenses were offset by lower advance payments to vendors.



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

There was no significant change in the carrying value of financial assets at fair value through profit or loss as at 30 June 2019 and 31 December 2018. The change in fair value was mainly due to forward contracts as the fair value of listed equity remained unchanged as at 30 June 2019 and 31 December 2018.

Financial liabilities at fair value through profit or loss were not significant as at 30 June 2019 and 31 December 2018.

#### Trade and other payables

Total trade payables remained relatively flat at 30 June 2019 (S\$6.5 million) as compared to 31 December 2018 (S\$6.6 million) while turnover days decreased to 28 days as compared to 35 days for the full year of 2018.

Other payables in aggregate consisting of accrued operating expenses, advance payments from customer and sundry payables decreased by S\$0.7 million from S\$5.5 million as at 31 December 2018 to S\$4.8 million as at 30 June 2019. This was primarily due to lower accrued operating expenses of S\$0.8 million.

#### Lease liabilities

Corresponding to the recognition of right-of-use assets, lease liabilities of S\$2.8 million was recorded as at 1.1.2019. The carrying value increased to S\$2.9 million as at 30 June 2019 as a result of additional lease liabilities recognized of S\$0.3 million offset by S\$0.2 million repayment in H1 2019.

#### Borrowings

Total borrowings increased by S\$1.6 million or 8.4% as additional net bills payables and short term loans of S\$2.1 million were utilised to finance inventory purchases in the current period. On the other hand, long term bank loans of S\$0.4 million were also repaid during the current period.

In line with higher total borrowings, our gearing ratio increased marginally from 0.41 times as at 31 December 2018 to 0.44 times as at 30 June 2019.

#### Net asset value

Net asset value per share increased from 35.38 cents as at 31 December 2018 to 36.11 cents as at 30 June 2019 primarily due to total comprehensive income for equity holders for the current period of S\$2.0 million offset by dividend payment to shareholders of S\$1.1 million.

### **8(c) CASH FLOW**

Despite an increase in cash obligations for inventory purchases, positive cash flows from operating activities of S\$0.6 million were generated as a result of positive net profit after tax and faster trade receivables turnover.

Excluding the increase in cash obligations for inventory purchases, cash flows from operating activities were more than adequate to meet dividend, lease and long term bank loans obligations. The increase in inventory purchases were satisfied by an increase in short terms bank loans.

Hence, overall cash and cash equivalents increased by S\$0.8 million from S\$12.2 million as at 31 December 2018 to S\$13.0 million as at 30 June 2019.

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

There was no forecast or prospect statement previously disclosed to shareholders.

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

#### **RISK FACTORS**

We believe the imminent risks to our financial performance in the second half of 2019 ("H2 2019") are as follows:



### **Global economy**

We are of the view that trade tensions, fading business confidence and financial market fragility pose downside risks to the global economy. If these risk factors do not subside, it may weigh on the prospects for the global economy and the chemical industry. This will then have an impact on our business.

### **Financial market risk**

Financial market activity and economic growth are closely linked. Many have warned of stretched market valuations. Should financial market risk escalates into a major correction, it may have an impact on economic growth and hence on our business prospect.

### **Volatility in energy prices**

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

### **Currency risk**

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

### **Interest rate risk**

Our interest rate risk arises from bank borrowings at floating rates. Interest rate has been rising and increasing our borrowing cost.

### **Credit risk**

Our products are sold to more than 2,000 customers across many countries. Although there is no significant concentration of credit risk, the credit risks in some countries are more difficult to assess. Any significant payment default will negatively impact on our financial performance.

### **Country risk**

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

### **Inventory risk**

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

## **PROSPECTS**

In our previous result announcement, we cautioned that the external uncertainties posed a threat to our growth momentum even as our sales hit record level in the last financial year. Since then, trade tensions have intensified and major economies are showing signs of lethargy. Financial markets, though exuberant, are looking increasingly fragile. In addition chemical industries' reports are mostly projecting dimmer outlook in H2 2019.

Megachem chemical products are sold to a wide spectrum of industries. While some industries such as electronics and oil & gas will be affected by economic weakness, others such as pharmaceutical, food and beverage, though not immune, are less susceptible to economic downturn.

All-in-all, we expect our second half performance to mirror to a certain extent the external economic conditions.



## 11. Dividend

### (a) Current financial year reported on

Any interim dividend declared for the financial period ended? Yes

The directors are pleased to declare an interim tax exempt dividend of 0.5 cent per share in respect of the financial period ended 30 June 2019 as follows:

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

### (b) Corresponding period of the immediately preceding financial year

Any dividend declared for the immediately preceding financial period ended 30 June 2018? Yes

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

### (c) Date payable

The interim tax exempt dividend of 0.5 cent per share in respect of the financial period ended 30 June 2019 will be paid on 12 September 2019.

### (d) Books closure date

The Transfer Books and Register of Members of the Company will be closed on 28 August 2019 for the purpose of determining member's entitlements to the proposed interim tax exempt dividend.

Duly completed and stamped transfers received by the Company's Share Registrar, Tricor Barbinder Share Registration Services (a division of Tricor Singapore Pte Ltd), 80 Robinson Road, #02-00, Singapore 068898, up to 5.00pm on 27 August 2019 will be registered to determine member's entitlement to the proposed dividend.

Members (being depositors) whose securities account with The Central Depository (Pte) Limited are credited with ordinary shares in the capital of the Company as at 5.00pm on 27 August 2019 will be entitled to the payment of the proposed dividend.

Payment of the interim tax exempt dividend of 0.5 cent per share will be made on 12 September 2019.

## 12. Related Parties and Interested Person Transactions

Name of interested person	Aggregate value of all interested person transactions during the financial period ended 30 June 2019 under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions during the financial period ended 30 June 2019 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)	Nil (Note 2)
Purchase of products from Chori Co., Ltd, a controlling shareholder of the Company, and its related corporations	Nil (Note 3)	(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 period ended 30 June 2019. There was no prior shareholders' mandate obtained for these interested person transactions.

Note 2 : The Group had no sales to Chori Co., Ltd and its related corporations. Shareholders' mandate was obtained for these interested person transactions.

Note 3 : The Group entered into purchase transactions amounting to S\$55,282 and each transaction was below S\$100,000 which fell outside the scope of Rule 920. Shareholders' mandate was obtained for these interested person transactions.

Note 4 : The Group entered into purchase transactions amounting to S\$32,675 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\$39,420 received by the Group is interest-free. The loan remained outstanding as at date of announcement. There was no prior shareholders' mandate obtained for these interested person transactions.

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

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



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

We, Chew Choon Tee and Tan Bock Chia being two directors of Megachem Limited, do hereby confirm on behalf of the Board of Directors that, to the best of our knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited results for the half year ended 30 June 2019 to be false or misleading in any material aspects.

On behalf of the Board of Directors

Chew Choon Tee  
Executive Chairman

Tan Bock Chia  
Executive Director

13 August 2019