



MEGACHEM LIMITED

Un-audited Financial Statements and
Dividend Announcement

For The Half Year Ended
30 June 2010

TABLE OF CONTENTS

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT	3
BALANCE SHEETS	5
CONSOLIDATED CASH FLOW STATEMENT	7
STATEMENTS OF CHANGES IN EQUITY	8
ACCOUNTING POLICIES	9
EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY	10
NET ASSET VALUE PER SHARE	10
REVIEW OF PERFORMANCE	11
FORECAST	15
RISK	15
PROSPECTS	16
DIVIDENDS	17
INTERESTED PARTY TRANSACTION	17

UNAUDITED RESULTS FOR THE HALF-YEAR ENDED 30 JUNE 2010

The directors of Megachem Limited are pleased to advise the following unaudited results of the Group for the half year ended 30 June 2010.

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

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE HALF YEAR ENDED 30 JUNE 2010

	For the half year	For the half year	Variance	
	ended 30 June 2010	ended 30 June 2009	Favourable/(Unfavourable)	
	S\$	S\$	S\$'000	%
Sales	45,195,630	31,903,616	13,292	41.7%
Cost of sales	<u>(35,380,532)</u>	<u>(25,115,425)</u>	(10,265)	(40.9%)
Gross profit	9,815,098	6,788,191	3,027	44.6%
Other operating income	387,075	365,834	21	5.8%
Distribution costs	(4,304,166)	(3,691,273)	(613)	(16.6%)
Administrative expenses	(1,889,027)	(1,611,101)	(278)	(17.3%)
Other operating expenses	(905,328)	(830,699)	(75)	(9.0%)
Finance costs	(41,559)	(101,931)	60	59.2%
Share of profit of associated companies	460,629	224,892	236	104.8%
Profit before income tax	3,522,722	1,143,913	2,379	208.0%
Income tax expense	<u>(704,531)</u>	<u>(326,782)</u>	(378)	(115.6%)
Net profit	2,818,191	817,131	2,001	244.9%
Other comprehensive income:				
Exchange differences on translating foreign operations, net of tax	469,536	191,150	278	145.6%
Total comprehensive income	3,287,727	1,008,281	2,279	226.1%
Net profit attributable to:				
Equity holders of the Company	2,656,903	783,214	1,874	239.2%
Minority interests	<u>161,288</u>	<u>33,917</u>	127	375.5%
Net profit	2,818,191	817,131	2,001	244.9%
Total comprehensive income attributable to:				
Equity holders of the Company	3,141,357	945,704	2,196	232.2%
Minority interests	<u>146,370</u>	<u>62,577</u>	84	133.9%
Total comprehensive income	3,287,727	1,008,281	2,279	226.1%
Earnings per share of profit attributable to equity holders of the Company during the financial period				
- basic and diluted	<u>1.99 cents</u>	<u>0.59 cents</u>		

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

	For the half year ended 30 June 2010 S\$	For the half year ended 30 June 2009 S\$
<u>Other operating income</u>		
Bad debt recovered	138,111	15,886
Change in fair value of financial assets held for trading	20,151	97,500
Gain on disposal of property, plant and equipment	18,957	-
Grant income	48,587	120,863
Interest income from banks	25,836	14,109
Management fees	10,168	5,791
Net foreign exchange gain	125,265	106,062
Rental income	-	5,623
	<u>387,075</u>	<u>365,834</u>
Change in fair value of financial liabilities held for trading	(36,440)	(9,544)
Depreciation and amortisation	(292,902)	(285,732)
Interest on borrowings	(41,559)	(101,931)
Impairment of trade receivables	(43,135)	(225,665)
Loss on disposal of property, plant and equipment	-	(4,365)
Write off of inventory	(148,357)	(173,957)
Adjustment for (under)/over provision for tax in respect of prior financial period	-	35,533

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

BALANCE SHEETS AS AT 30 JUNE 2010

	<u>Group</u>		<u>Company</u>	
	30 June 2010 S\$	31 December 2009 S\$	30 June 2010 S\$	31 December 2009 S\$
ASSETS				
Current assets				
Cash and bank balances	6,278,752	6,577,618	1,801,038	1,917,538
Trade and other receivables	23,368,403	21,137,927	13,753,139	14,058,391
Inventories	17,681,686	14,107,596	10,471,103	8,876,292
Financial assets held for trading	120,151	100,000	113,346	100,000
Other current assets	3,062,610	1,880,278	1,753,567	729,973
	<u>50,511,602</u>	<u>43,803,419</u>	<u>27,892,193</u>	<u>25,682,194</u>
Non-current assets				
Transferable club memberships	34,017	32,512	4,001	4,001
Investment in associated companies	3,657,374	3,184,024	99,949	99,949
Investments in subsidiaries	-	-	4,319,751	4,046,864
Investment property	137,684	132,704	-	-
Property, plant and equipment	3,377,253	3,442,600	1,906,041	1,943,765
	<u>7,206,328</u>	<u>6,791,840</u>	<u>6,329,742</u>	<u>6,094,579</u>
Total assets	<u>57,717,930</u>	<u>50,595,259</u>	<u>34,221,935</u>	<u>31,776,773</u>
LIABILITIES				
Current liabilities				
Trade and other payables	10,732,658	8,844,975	4,019,835	4,651,440
Current tax liabilities	350,779	168,496	108,269	63,545
Borrowings	9,827,069	6,696,535	9,661,061	6,467,539
Financial liabilities held for trading	41,220	29,157	-	9,253
	<u>20,951,726</u>	<u>15,739,163</u>	<u>13,789,165</u>	<u>11,191,777</u>
Non-current liabilities				
Deferred tax liabilities	32,366	31,500	-	-
Borrowings	43,227	53,985	-	-
	<u>75,593</u>	<u>85,485</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>21,027,319</u>	<u>15,824,648</u>	<u>13,789,165</u>	<u>11,191,777</u>
NET ASSETS	<u>36,690,611</u>	<u>34,770,611</u>	<u>20,432,770</u>	<u>20,584,996</u>
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	15,892,028	15,892,028	15,892,028	15,892,028
Other reserves	(851,404)	(1,335,858)	-	-
Retained earnings	20,089,272	18,765,369	4,540,742	4,692,968
	<u>35,129,896</u>	<u>33,321,539</u>	<u>20,432,770</u>	<u>20,584,996</u>
Minority interests	1,560,715	1,449,072	-	-
Total equity	<u>36,690,611</u>	<u>34,770,611</u>	<u>20,432,770</u>	<u>20,584,996</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 2010		As at 31 December 2009	
Secured	Unsecured	Secured	Unsecured
S\$166,008	S\$9,661,061	S\$228,996	S\$6,467,539

Amount repayable after one year

As at 30 June 2010		As at 31 December 2009	
Secured	Unsecured	Secured	Unsecured
S\$43,227	-	S\$53,395	-

Details of collateral

The secured borrowings were collateralized on:

- (i) fixed and floating charges over all the assets and undertaking of a subsidiary, including all present and future freehold and leasehold property, book and other debts, chattels, goodwill and uncalled capital, both present and future;
- (ii) motor vehicles of subsidiaries.

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 30 JUNE 2010

	For the half year ended 30 June 2010 S\$	For the half year ended 30 June 2009 S\$
Cash flows from operating activities		
Net profit	2,818,191	817,131
Adjustments for:		
Amortisation and depreciation	292,902	285,732
Change in fair value of financial assets held for trading	(7,500)	(27,500)
Dividend income	-	
(Gain)/loss on disposal of property, plant and equipment	(18,957)	4,365
Share of profit of associated companies	(460,629)	(224,892)
Income tax expense	704,531	326,782
Interest income	(25,836)	(14,109)
Interest expense	41,559	101,931
Operating cash flow before working capital changes	<u>3,344,261</u>	<u>1,269,440</u>
Change in operating assets and liabilities		
Trade and other receivables	(3,412,808)	(1,715,771)
Inventories	(3,574,090)	3,011,194
Financial assets held for trading	(12,651)	(70,000)
Trade and other payables	1,924,740	1,826,836
Financial liabilities held for trading	12,063	(313,024)
Exchange differences	305,395	201,626
Cash (used in)/generated from operations	<u>(1,413,090)</u>	<u>4,210,301</u>
Income tax paid	(565,952)	(243,948)
Interest received	25,836	14,109
Net cash (used in)/provided by operating activities	<u>(1,953,206)</u>	<u>3,980,462</u>
Cash flows from investing activities		
Purchase of interest from minority shareholder	(17,207)	-
Dividend received	148,568	320,632
Purchase of property, plant and equipment	(200,310)	(138,852)
Proceeds from sale of property, plant and equipment	18,961	36,792
Net cash (used in)/provided by investing activities	<u>(49,988)</u>	<u>218,572</u>
Cash flows from financing activities		
Dividends paid	(1,333,000)	(533,200)
Dividends paid by subsidiary to minority shareholders	(17,520)	(25,281)
Proceeds from/(repayment of) borrowings	3,158,312	(2,891,024)
Repayment of finance lease liability	(26,819)	(12,333)
Interest paid	(78,616)	(122,178)
Net cash provided by/(used in) financing activities	<u>1,702,357</u>	<u>(3,584,016)</u>
Net increase in cash and cash equivalents held	(300,837)	615,018
Cash and cash equivalents at beginning of the financial period	6,577,618	6,018,091
Effects of exchange rate changes on cash and cash equivalents	1,971	31,399
Cash and cash equivalents at end of the financial period	<u>6,278,752</u>	<u>6,664,508</u>

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

STATEMENTS OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2010

	Attributable to equity holders of the Company					Total equity S\$
	Share capital S\$	Other reserves S\$	Retained earnings S\$	Total S\$	Minority interests S\$	
<u>The Group</u>						
Balance at 1 January 2010	15,892,028	(1,335,858)	18,765,369	33,321,539	1,449,072	34,770,611
Total comprehensive income for the financial period	-	484,454	2,656,903	3,141,357	146,370	3,287,727
Final dividend relating to FY2009 paid	-	-	(1,333,000)	(1,333,000)	(17,520)	(1,350,520)
Purchase of interest from minority shareholder					(17,207)	(17,207)
Balance at 30 June 2010	15,892,028	(851,404)	20,089,272	35,129,896	1,560,715	36,690,611
Balance at 1 January 2009	15,892,028	(1,369,200)	16,662,756	31,185,584	1,390,187	32,575,771
Total comprehensive income for the financial period	-	162,490	783,214	945,704	62,577	1,008,281
Final dividend relating to FY2008 paid	-	-	(533,200)	(533,200)	(25,281)	(558,481)
Balance at 30 June 2009	15,892,028	(1,206,710)	16,912,770	31,598,088	1,427,483	33,025,571
<u>The Company</u>						
Balance at 1 January 2010	15,892,028	4,692,968	20,584,996			
Total comprehensive income for the financial period	-	1,180,774	1,180,774			
Final dividend relating to FY2009 paid	-	(1,333,000)	(1,333,000)			
Balance at 30 June 2010	15,892,028	4,540,742	20,432,770			
Balance at 1 January 2009	15,892,028	3,626,061	19,518,089			
Total comprehensive income for the financial period	-	967,866	967,866			
Final dividend relating to FY2008 paid	-	(533,200)	(533,200)			
Balance at 30 June 2009	15,892,028	4,060,727	19,952,755			

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

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

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

There were no unissued shares of the Company under option and treasury shares as at the end of 30 June 2010 and 31 December 2009.

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

The total number of issued ordinary shares, excluding treasury shares, as at the end of 30 June 2010 and 31 December 2009 were 133,300,000.

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

The figures have not been audited or reviewed.

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

Nil.

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

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as those of the audited financial statements for the year ended 31 December 2009.

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 2010, the Group adopted the new and revised FRS and Interpretations to FRS (INT FRS) that are relevant to its operations and mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective FRS and INT FRS.

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

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

	For the half year ended 30 June 2010	For the half year ended 30 June 2009
Earnings per ordinary shares (in cents)		
a) Based on weighted average number of ordinary shares on issue	1.99	0.59
b) On a fully diluted basis	1.99	0.59
Weighted average number of ordinary shares in issue for earnings per share	133,300,000	133,300,000

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

	30 June 2010	<u>Group</u> 31 December 2009	30 June 2010	<u>Company</u> 31 December 2009
Net asset value per ordinary share based on issued share capital (cents)	26.35	25.00	15.33	15.44
No of ordinary shares used in calculation	133,300,000	133,300,000	133,300,000	133,300,000

8. REVIEW OF PERFORMANCE

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

Profitability Highlights	H1 2010	H2 2009	H1 2009	Variance H1 10 vs H1 09		Variance H1 10 vs H2 09	
				Fav/(Unfav)	%	Fav/(Unfav)	%
Sales (S\$'mil)	45.2	38.7	31.9	13.3	41.7%	6.5	16.7%
Gross profit (S\$'mil)	9.8	8.5	6.8	3.0	44.6%	1.3	15.2%
Gross profit margin	21.7%	22.0%	21.3%	0.4% pts	na	(0.3%) pts	na
Total expenses and finance cost (S\$'mil)	7.1	6.8	6.2	(0.9)	(14.5%)	(0.3)	(5.0%)
Other operating income (S\$'000)	387	135	366	21	5.8%	252	186.7%
Share of associated profit (S\$'000)	461	454	225	236	104.8%	7	1.5%
Net profit before tax (S\$'mil)	3.5	2.3	1.1	2.4	208.0%	1.2	52.8%
Net profit after tax (S\$'mil)	2.8	1.9	0.8	2.0	244.9%	0.9	49.2%
Earnings per share attributable to the equity holders of the Company (cents)	1.99	1.39	0.59	1.4	237.3%	0.6	43.2%
Annualised return on equity (ROE)	15.1%	11.1%	5.0%	10.1% pts	na	4.0% pts	na

Balance Sheet Highlights	← Half year ended →		30 June 2009	Variance 30 June 2010 vs 30 June 2009		Variance 30 June 2010 vs 31 December 2009	
	30 June 2010	31 December 2009		Fav/(Unfav)	%	Fav/(Unfav)	%
Current ratio	2.41	2.78	2.91	(0.50)	na	(0.37)	na
Gearing ratio	0.28	0.2	0.17	(0.11)	na	(0.08)	na
Net tangible assets per share (cents)	26.35	25.00	23.70	2.65	na	1.35	na
Inventory turnover (days)	88	86	107	19	na	(2)	na
Trade receivables turnover (days)	91	96	111	20	na	5	na

n.a : not applicable

8(a) PROFITABILITY ANALYSIS

8(a)(i) Sales

	For the half year ended 30 June 2010		For the half year ended 31 December 2009		Variance S\$'000	Fav/(Unfav) %
	S\$'000	%	S\$'000	%		
ASEAN	32,124	71.1	28,057	72.4	4,067	14.5
Europe	2,533	5.6	1,684	4.4	849	50.4
North Asia	3,476	7.7	2,611	6.7	865	33.1
North and South America	1,995	4.4	1,738	4.5	257	14.8
South Asia	2,201	4.9	1,303	3.4	898	68.9
Australia	1,089	2.4	1,049	2.7	40	3.8
Middle East	1,731	3.8	2,277	5.9	(546)	(24.0)
Africa	47	0.1	-	-	47	100
Total	45,196	100.0	38,719	100.0	6,477	16.7

	For the half year ended 30 June 2010		For the half year ended 30 June 2009		Variance S\$'000	Fav/(Unfav) %
	S\$'000	%	S\$'000	%		
ASEAN	32,124	71.1	22,342	70.0	9,782	43.8
Europe	2,533	5.6	1,391	4.4	1,142	82.1
North Asia	3,476	7.7	2,014	6.3	1,462	72.6
North and South America	1,995	4.4	1,617	5.1	378	23.4
South Asia	2,201	4.9	1,003	3.1	1,198	119.4
Australia	1,089	2.4	1,207	3.8	(118)	(9.8)
Middle East	1,731	3.8	2,220	7.0	(489)	(22.0)
Africa	47	0.1	110	0.3	(63)	(57.3)
Total	45,196	100.0	31,904	100.0	13,292	41.7

Following the strong post-recession rebound of 21.4% seen in second half of 2009, sales growth momentum continued into the first half of 2010 as most of the markets proved to have recovered from the economic downturn. As a result, sales for first half of 2010 registered growth of 16.7% or S\$6.5 million over the second half of 2009 to achieve record half yearly sales of S\$45.2 million. As compared to first half of 2009 when most markets were still in recession, sales for first half of 2010 jumped by 41.7% or S\$13.3 million. The record sales were achieved on the back of higher volume sold to both existing and new customers.

Year-on-year, most markets performed better as global economic environment improved, except for Middle East. The decline in sales in Middle East was mainly due to efforts to focus on higher margin customers. ASEAN, which is our largest market segment, reported strong growth of 43.8% year-on-year and 14.5% from last half year of 2009. Despite the debt crisis faced in Europe, our Europe sales grew by 50.4% in the first half of 2010 as compared to the second half of 2009 and by 82.1% year-on-year. Similarly, America markets recorded growth of 14.8% sequentially from last half of 2009 and 23.4% year-on-year. Intensified effort to grow our business to China coupled with a vibrant market contributed to the strong growth in our North Asia market segment. Our efforts to push ahead with our globalization strategy into emerging markets were rewarded with higher sales contribution from South Asia. Sales from South Asia, led by India, doubled year-on-year and also demonstrated strong consecutive half yearly growth since last year.

Our custom-blending services, which had already resumed its business to pre-crisis level in the second half of 2009, saw a marginal increase in sales of 3.4% over the second half of 2009. Year-on-year, sales recovered by S\$0.6 million or 57.1%.

8(a)(ii) Gross profit

Our gross profit margin for the first half of 2010 at 21.7% remained relatively stable as compared to both first half and second half of 2009. As a result of higher sales, gross profit increased by S\$3.0 million or 44.6% year-on-year.

8(a)(iii) Other operating income

Other operating income increased marginally by S\$21,000 or 5.8% year-on-year mainly due higher bad debt recovered of S\$122,000, gain from disposal of fixed assets S\$19,000 and higher foreign exchange gain of S\$19,000.

This was partially offset by lower grant income of S\$72,000 and fair value gain from marketable securities and forward contracts of S\$77,000.

Other operating income as compared to second half of 2009 was also higher by S\$252,000 or 186.7% primarily due foreign exchange gain in the first half of 2010.

8(a)(iv) Operating expenses

Total distribution, administrative and other operating expenses amounted to S\$7.1 million for the first half of 2010 which was an increase of S\$1.0 million or 15.7% as compared to the same period last year.

The main variances in our operating expenses were as follows:

	For the half year ended 30 June 2010 S\$'000	For the half year ended 30 June 2009 S\$'000	Variance Fav/(Unfav)	
			S\$'000	%
Advertising and entertainment	140	68	(72)	(105.5%)
Changes in fair value of financial liabilities	36	10	(26)	(281.8%)
Depreciation of property, plant and equipment	293	286	(7)	(2.5%)
Employee remuneration and related expenses	4,179	3,538	(641)	(18.1%)
Impairment of doubtful trade receivables	43	226	183	80.9%
Professional fees	267	144	(123)	(85.3%)
Travelling and transport expenses	272	230	(42)	(18.1%)
Rental for operating leases	663	581	(82)	(14.1%)

Overall the increase in operating expenses such as advertising and entertainment, travelling and transport charges and employee remuneration was directly related to the pick up in business activities and better performance. Correspondingly, higher inventory holding led to increase in rental expenses.

A lower allowance for impairment for trade receivables made in the current first half was also due to the better economic environment in 2010.

On the other hand, the increase in professional fees in 2010 was primarily related to incorporation expenses of new subsidiary in India, closure costs for representative offices as well as listing sponsor fees incurred for the current year.

As compared to the second half of 2009, operating expenses increased by S\$0.4 million or 6.5% similarly from higher employee remuneration, rental charges, advertising and entertainment and professional fees for reasons noted above.

8(a)(v) Finance costs

Finance costs comprised the following:-

	For the half year ended 30 June 2010 S\$'000	For the half year ended 30 June 2009 S\$'000
Finance costs		
Bills payable to banks	37	64
Hire purchase	5	4
Short term loan	-	34
	42	102

Finance costs decreased by S\$60,000 or 59.2% due to lower borrowings in the first quarter.

As compared to second half of 2009, finance cost also decreased by S\$0.1 million or 69.2%.

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

In line with the improved market conditions, share of profit of associated companies of S\$0.5 million for the first half of 2010 doubled as compared to the same period last year while remained flat as compared to the second half of 2009.

8(a)(vii) Profit before income tax

As a result of achieving record half yearly sales in first half of 2010, our profit before income tax more than tripled to S\$3.5 million from S\$1.1 million year-on-year and was also S\$1.2 million or 52.8% higher than the second half of 2009. We had in fact surpassed full year profit of 2009 in the first six months of 2010.

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

Likewise, profit for the period attributable to the equity holders of the Company more than tripled to S\$2.7 million from S\$0.8 million year-on-year, matching full year 2009 results. Against second half of 2009, the increase was considerable at S\$0.8 million or 43.4%.

8(b) BALANCE SHEET ANALYSIS

In line with S\$6.5 million higher sales in the first half of 2010 as compared to the second half of 2009, third party trade receivables increased by S\$2.0 million from S\$21.0 million as at 31 December 2009 to S\$23.0 million as at 30 June 2010. Trade receivable turnover days improved to 91 as compared to 111 days for first half of 2009 and 96 days for the second half of 2009. Lower allowance for impairment of doubtful trade receivables of S\$43,000 was made in first half of 2010.

In anticipation of tight supply for the remaining half of the year, inventory purchases were more aggressive in the second quarter of 2010. Coupled with higher raw material prices, inventory and other current assets, which consist mainly of advance payment to suppliers, climbed from S\$14.1 million to S\$17.7 million and from S\$1.9 million to S\$3.1 million as at 30 June 2010 respectively. Though inventory value increased, turnover days actually improved considerably to 88 days as compared to 107 days for first half of 2009 and remain relatively stable as compared to 86 days in second half of 2009.

Consequently, this also led to increase trade and other payables and borrowings from S\$8.8 million and S\$6.8 million as at 31 December 2009 to S\$10.7 million and S\$9.9 million as at 30 June 2010 respectively. Despite higher short term borrowings, our gearing ratio remained low at 0.28.

Net asset per share increased from 25.00 cents as at 31 December 2009 to 26.35 cents as at 30 June 2010 primarily due to better results for the first half of 2010 and an increase in currency translation reserve of S\$0.5 million resulted mainly from strengthening of Malaysian Ringgit and Thai Baht.

8(c) CASH FLOW

Overall cash position remained relatively flat at S\$6.3 million as compared to 31 December 2009. With higher purchases and advance payment in second quarter of 2010, negative cashflow from operating activities was generated which was then financed with borrowings. Coupled with higher dividend payment of S\$1.3 million in 2010, the net effect was a decrease in cash position from S\$6.6 million to S\$6.3 million.

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

In our announcement dated 16 June 2010 "Business Update", we reported that the results for the first half ending 30 June 2010 would be better than both the first half and second half of 2009 as a result of positive developments in various segments of our business. Our results were thus in line with our prospect statement.

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

RISK FACTORS

Despite the expected economic recovery, risks remain for the rest of 2010. These are primarily associated with:

Continuing financial and debt crisis in Europe

The austerity measures implemented following the debt crisis in Europe may hinder its economic recovery. The fallout from the Europe debt crisis has not had significant impact on our business so far. In fact, our Europe market had registered higher sales in the first half of this year (refer to section 8(a)(i) above). Although the repercussions on Europe's economy hereafter remain uncertain, we believe its impact on our business will be manageable.

Winding down of national stimulus programs

Questions hovering over the timing and extent of stimulus programs unwinding remain unanswered. The impact on the global economy is difficult to ascertain and may have an impact on demand for chemicals.

Volatile raw materials markets

Although we see positive trends with regard to fundamentals, both on the volume and pricing side, volatility in energy prices and changes in capacity will affect the demand and supply of chemicals as well as chemical prices. This will in turn affect our pricing to supply to our customers.

Currency volatility

We operate internationally and therefore are exposed to foreign currency risks arising from various currency exposures primarily in United States Dollar, Euro, Sterling Pound, Japanese Yen and Malaysia Ringgit. If the currency market continues to be volatile, it may have an impact on our profitability.

Interest Rate Risk

Our interest rate risk arises mainly from short-term borrowings at floating rates. Any raise in market interest rates will increase our borrowing cost.

Credit risk

Our products are sold to more than 1000 customers. The credit risks in some countries are more difficult to assess. Any payment default will negatively impact on our financial performance.

Oil price

Any rapid and drastic spike in oil prices may have an impact on our profit margins.

Country risk

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

PROSPECTS

Demand for chemicals tracks global industrial production and global Gross Domestic Product ("GDP") closely. Global economic recovery continued in the first half of 2010. Some inventory restocking among our customers and pick up in industrial activities resulted in increased demand for chemicals, which met with supply shortages for certain chemical products. For these reasons, our business developed favorably in the first half of 2010.

For the second half of 2010, general consensus seems to suggest moderation in the pace of economic recovery. We anticipate chemical demand and prices will continue to track the economic growth.

We believe our growth will outpace that of the general market. Our strategic initiatives over the last few years such as the expansion of our geographic network, development of regional relationships and integration of value-adding services into our business model will enable us to accelerate our growth for the current and coming years. We see opportunities in consistently implementing our strategy and further improving our business activities. Therefore, we will continue to concentrate on market portfolio improvements, focusing on key growth markets and industry coverage and leveraging on our strength in global network and customer base.

Although there remain risks regarding a self-sustaining, lasting upturn in global economy, overall we expect results for the full year of 2010 to improve considerably over 2009.

11. Dividend

(a) Current financial period reported on

Any interim dividend declared for the financial period ended? Yes

The directors are pleased to recommend an interim dividend in respect of the financial period ended 30 June 2010 as follows:

Name of dividend : Interim one-tier tax exempt

Type of dividend : cash

Dividend amount per share (cents) : 0.5 cents per share

(b) Corresponding period of the immediately preceding financial year

Nil

(c) Date payable

To be announced later

(d) Books closure date

To be announced later

13. Interested Person Transactions

Name of interested person	Aggregate value of all interested person transactions during the financial period ended 30 June 2010 under review (excluding transactions less than \$100,000 and transactions conduct under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions during the financial period ended 30 June 2010 conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
Transportation services rendered by Ipem Automation Sdn. Bhd., a company owned by associates of Mr Chew Choon Tee, a director of Megachem Group	(Note 1)	Nil

Note 1 : The Group has entered into interested person transactions amounting to S\$111,114 and each transaction was below S\$100,000 which fell outside the scope of Rule 920.

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

We, Chew Choon Tee and Tan Bock Chia being two directors of Megachem Limited ("the Company"), do hereby confirm on behalf of the Board of Directors that, to 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 2010 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

6 August 2010



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

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

The contact person for the Sponsor is Foo Say Nam (Associate Director, Corporate Finance), Phillip Securities Pte Ltd, 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone (65) 6533 6001.