



NEWS RELEASE

MEGACHEM POSTS NET PROFIT OF S\$2.5 MILLION FOR FY2005

Key Highlights for FY2005:

- ✓ **Revenue decreased by 13% to S\$59.3 million due to:**
 - ✧ Customers were cautious in purchasing amid rising oil prices
 - ✧ A non-recurring project order in previous corresponding year
- ✓ **Gross margin of 22% was maintained despite higher cost of materials**
- ✓ **Profit before tax decreased 24% to S\$3.7 million**
 - ✧ Total expenses decreased by 6.3% of which finance costs reduced by 37%
- ✓ **Net profit was S\$2.5 million, Earnings per share at 1.91 cents**
- ✓ **Strong balance sheet and working capital position with current ratio of 3.24 times and gearing of 0.17 times**
- ✓ **Net tangible assets per share of 21.40 cents**
- ✓ **Proposed final dividend of 0.72 cents per share less tax**

Singapore, *February 22, 2006* – Megachem Limited (“Megachem” or the “Group”), a global one-stop specialty chemical solutions provider, today reported a net profit of S\$2.5 million for the financial year ended 31 December 2005 (“FY2005”) on the back of a Group revenue of S\$59.3 million.

Said Mr Sidney Chew, Executive Chairman and Managing Director of Megachem, “While the business sentiments remained rather cautious amid the uncertainty over high oil prices, we managed to perform better than the profit update we issued in November last year. Our net profit decreased 29.4% to S\$2.5 million for FY2005, a smaller magnitude compared to the update estimate of between 35% and 40% compared to our record net profit of S\$3.6 million in the last corresponding period.”

Earnings Review

Megachem registered lower sales revenue for FY2005 as customers were cautious in their purchasing amid rising oil prices. The lower demand was broad-based with lower sales to most of the industries we served.

On a geographic segmental basis, main sales revenue contributors – Singapore and Malaysia, registered negative growth of 19.7% and 26.2% to S\$26.7 million and S\$12.7 million respectively.

Sales revenue for Singapore declined due to a non-recurring project order in prior year and the transfer of manufacturing facilities of a customer to China. Nevertheless, the Group's manufacturing operations, which is part of its Singapore operations, continued to improve with a 65.4% increase in sales to S\$0.8 million.

The Group's sales for Malaysia was indirectly affected by lower demand for its customers' products when its customers cut back on production.

Sales revenue in UK, Indonesia and the Philippines operations improved moderately, while China continued to grow strongly, increasing by 62.4% to S\$4.1 million on the back of an expanding customer base and contribution from its new Beijing office.

On the back of lower revenue and rising cost of materials, gross profit decreased by 12.7% to S\$12.8 million. Nevertheless, the Group's gross profit margin improve marginally by 0.1% to 21.6%.

In view of higher interest rates, the Group had also reduced its borrowings, hence lowering the finance costs by 36.5% to S\$0.2 million.

Net profit for FY2005 decreased by 29.4% to S\$2.5 million with basic earnings per share at 1.91 cents. As at 31 December 2005, net tangible assets per share was 21.40 cents as compared to 20.24 cents as at 31 December 2004.

The Board proposed a final dividend of 7.2% or 0.72 cents per ordinary share, less tax for FY2005. The Board intends to maintain a future dividend payout of about 30%.

Prospects

Going forward, the Group will continue to focus on strengthening its five growth drivers – increasing geographic coverage, enhancing product offerings, widening industry coverage, building manufacturing capabilities, and seeking strategic alliances.

The establishment of a branch office in Beijing and the approval for a Liaison Office in India last year bring its distribution network to 11 representative offices in nine countries.

“These new additions to our distribution network will strengthen Megachem further as these countries are currently the fastest growing economies in the world. Our focus on enlarging our presence will help us garner more distribution rights from suppliers, and thereby enhance our product offerings to serve our global customer base,” said Mr Sidney Chew.

While maintaining its diverse coverage across a spectrum of industries, the Group has also expanded its sales force to focus on growth industries such as water treatment, food, pharmaceuticals, oil and gas and petrochemicals to enhance its earnings.

Riding on the outsourcing trend in the chemical industry, MegaChem commenced its manufacturing activities in 2002. Revenue has since grown at an annual compounded growth rate of 169% over the last three years.

“We are encouraged by the positive response to our contract manufacturing services and we are in the process of securing additional new contracts. The launch of our proprietary product, Megafuel, a fuel additive that lowers petrol consumption and air pollution, has also been encouraging. The product is currently distributed by our distributors in Shanghai and Beijing in China and Malaysia, and we are in negotiation to appoint more distributors in China,” added Mr Chew.

Barring unforeseen circumstances, the Board is optimistic that the Group is on track to deliver better performance in the financial year 2006.

About Megachem Limited

Established in 1987, MegaChem is today a one-stop specialty chemical solutions provider. We provide integrated value-added services including, international distribution, contract manufacturing of specialty chemicals as well as proprietary chemical products manufacturing to meet our customers' requirements.

Our international distribution network today comprises 11 distribution points, Singapore, Malaysia, Indonesia, Thailand, the Philippines, Shanghai, Guangzhou, Beijing, Vietnam, India and the United Kingdom. This distribution network also supports d South Asia, Middle East, South Korea and Australia markets.

We distribute over 800 different types and grades of specialty chemicals, with a wide range of applications to an established and diversified base of about 1,200 industrial customers, comprising mostly well-known multinational companies. We serve a wide spectrum of industries including high-growth industries such as water treatment, food, pharmaceuticals, polymers, coatings, electronics, rubber and plastics.

To enhance our competitive edge and complement our strength in distribution, we have integrated the manufacturing of specialty chemicals for our customers, and the manufacture of our own range of products such as Megafuel into our business model.

For more information, please visit www.megachem.com.sg.

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