MegaChem®

**MEGACHEM LIMITED**

**FY2009 – Message from Executive Chairman & Managing Director**

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present MegaChem Limited's performance results for the financial year ended December 31, 2009 ("FY2009").

**The Year in Review**

2009 was a challenging year for most companies including MegaChem. The crisis, which began in the United States of America in 2008 and soon developed into a global recession, persisted into the first quarter of 2009. Since then the economy has shown signs of recovery. This has translated into restocking of inventory, resumption in demand and stabilization in prices for the chemical industry.

| S$'million | FY2008 | FY2009 | Variance | Variance % |
|---|---|---|---|---|
| Sales | 77.7 | 70.6 | (7.0) | (9.1%) |
| Net Profit After Tax | 2.3 | 2.7 | 0.4 | 15.7% |

MegaChem's resilience and adaptability amidst crisis has once again been demonstrated in our results in 2009. Notwithstanding a very difficult first half, our

full year sales dipped by only 9.1% to S$70.6 million and net profit actually increased 15.7% to S$2.7 million.

| | 1H 09 | 2H 09 | Variance | Variance % |
|---|---|---|---|---|
| Sales | 31.9 | 38.7 | 6.8 | 21.4 |
| Net Profit After Tax | 0.8 | 1.9 | 1.1 | 131.2 |

| | 2H 08 | 2H 09 | Variance | Variance % |
|---|---|---|---|---|
| Sales | 36.8 | 38.7 | 1.9 | 5.2 |
| Net Profit After Tax | 0.8 | 1.9 | 1.1 | 150.5 |

I am also pleased to announce that the second half of 2009 fared significantly better than the first, with sales rebounding strongly by 21.4% to S$38.7 million. Although for the full year our major market segments registered fall in sales, there was an increase in sales across all market segments in the second half compared to the first with the exception of Australia and Africa. We attribute this performance to our ability to offer higher value creation to our business partners worldwide through better product mix, supply chain solutions and integrated services.

Our manufacturing operations also saw pick up in business in the second half of 2009, as orders from custom-blending services resumed. Overall, a marginal decline of 4.3% in year-on-year sales from manufacturing operations was experienced.

Despite price pressures for a large part of the first half of 2009, the Group's gross profit margin improved 1.4 percentage points. Prices began to stabilise in the second half of 2009 which allowed us to register higher gross profit margin.

Following cost containment measures, coupled with lower finance cost and fair value losses, we managed to bring total expenses down by $0.8 million or 5.6%.

Our associated company in Thailand also performed better resulting in our share of their net profit increasing by $0.1 million or 25.4%.

The higher gross profit margin, better performance of the Group's associated company, reduction in expenses thus contributed to the higher profit for the full year.

| Cents | FY2008 | FY2009 | Variance | Variance % |
|---|---|---|---|---|
| EPS | 1.66 | 1.98 | 0.32 | 19.3 |

As a result our earnings per share increased 19.3% from 1.66 cents to 1.98 cents.

In short, 2009 was a commendable year in which we registered profit growth on the back of much uncertainty in the global economy and in which we once again proved our strength in times of adversity.

**Paving the way for growth**

- Global network : platform for growth

Undeterred by the crisis in the early part of the year, we forged ahead with our globalisation strategy by expanding our presence in the emerging markets of Asia. This year marks the full implementation of our strategy set five years ago, which was to build a global platform to launch our next phase of growth. This year we converted our representative offices in India and Vietnam to subsidiaries which will enable us to deepen our penetration into these markets. As such, our global network now spans across 10 countries reaching markets in ASEAN, North and South Asia, the Middle East, Europe, America and Australia. The next 5 years will see us scaling up our business using the global platform which we have built.

- Industry coverage : targeting high growth industries

Diversification in industry coverage is an important part of our business model and has provided us the resilience in difficult times. There are however industries such as oil & gas, water treatment, automotive, construction and aviation which offer greater growth potential than others. We will thus channel more resources into developing our business to these industries.

- Product offerings : securing more product agencies

The crisis has enabled us to consolidate our position in the industry, resulting in more product agencies being secured. While the Group already distributes more than 1000 different types and grades of specialty chemicals that span a wide range of applications, we will continue to seek new product agencies that will provide our customers with wider choices in terms of price and quality.

- Customer base : building regional relationships

The crisis presented us with opportunities to expand regional relationships with our multi-national customers as they began to steamline their operations. This further entrenches our position as a one-stop integrated solutions provider and provides us a higher as well as steadier stream of revenue.

- Manufacturing : riding on outsourcing trend

Our custom-blending business has also seen resumption in orders as well as new customers being secured. We will continue to build and refine our manufacturing capabilities to raise our standing in the industry. Our custom-blending business places us in a good position to ride on the outsourcing trend that has become prevalent following the crisis. This will serve as another engine of growth in the coming years.

The Group in the next 5 years will position ourselves as a bridge between Asian and Western markets. Tapping on our extensive network and our supply chain

capabilities, we will be able to bring good quality products to our desired markets across the globe. Now that the platform has been laid for our next phase, our resources will be focused on boosting our sales activities especially in the newly developed markets. With the knowledge and expertise we have garnered, we believe that this business model will value add to both of these market segments.

MegaChem has emerged from the crisis even stronger than before. We have strengthened our market position and our financial position remains healthy. In view of the global economy's improving conditions, we have started to restock inventory in anticipation of increase in demand and prices in the chemical industry. Our marketing approach will also resume a more aggressive stance to capitalise on the economic recovery.

The changes in the business landscape present us with many opportunities to seize. The Board is therefore confident that the strategy, which has been put in place, will position MegaChem to take full advantage of these opportunities. Barring any unforeseen circumstances, we envisage a better performance in 2010.

**Transiting to Catalist**

Following Singapore Exchange Limited's unveiling of Catalist, a sponsored-supervised listing platform which replaces the Stock Exchange of Singapore Dealing and Automated Quotation System(SESDAQ), I am pleased to inform shareholders that we have officially transited to Catalist on 11 January 2010. In conjunction with this, I would also like to welcome Phillip Securities Pte Ltd as our continuing sponsor. With Phillip Securities Pte Ltd's years of experience in the securities industry, I am certain we will continue to maintain a high standard of corporate governance.

**Rewarding our shareholders**

| | FY2008 | FY2009 |
|---|---|---|
| Dividend/share(cents) | 0.4 | 1.0 |
| Dividend Payout % | 24.1 | 50.6 |

To provide a better total return to our shareholders, we intend to pay interim and final year dividend and will also adopt a higher dividend payout. The Board is therefore pleased to propose a final dividend of 1.0 cent per share subject to shareholders approval at the coming AGM. This represents a dividend payout of 50.6% and is significantly higher than the dividend payment for financial year 2008.

**Words of appreciation**

I would like to say my heartfelt "Thank You" to my Board members, management team and dedicated staff for their commitment and contributions to MegaChem. Your winning spirit and willingness to work in unity has enabled us to deliver another set of commendable results. I would also like to thank our valued shareholders, customers, bankers and business partners for the support that you have given us. With your continued faith and support in MegaChem, I am confident that the Group will be even stronger and more successful in the future.

Yours sincerely,
Sidney Chew
Executive Chairman & Managing Director
MegaChem Limited