



SINOMEM TECHNOLOGY LIMITED
(REGISTRATION NO: 200208107G)

SECOND QUARTER AND FIRST HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30/06/2008

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

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

**1(a)(i)
UNAUDITED CONSOLIDATED RESULTS FOR THE PERIOD ENDED 30/06/2008**

	Group 3 months ended 30/06/2008 \$'000	Group 3 months ended 30/06/2007 \$'000	+ / (-) %	Group 6 months ended 30/06/2008 \$'000	Group 6 months ended 30/06/2007 \$'000	+ / (-) %
Revenue	31,277	27,455	14	54,158	48,233	12
Cost of sales	(23,619)	(19,397)	22	(39,565)	(33,771)	17
Gross profit	7,658	8,058	(5)	14,593	14,462	1
Other operating income	2,296	1,123	104	5,383	2,587	108
Selling and distribution expenses	(982)	(776)	27	(1,885)	(1,334)	41
General and administrative expenses	(3,291)	(2,093)	57	(6,663)	(4,246)	57
Finance cost	(1,424)	(1,355)	5	(2,848)	(2,704)	5
Share of profits of associates	1,425	585	144	2,430	1,260	93
Profit before income tax	5,682	5,542	3	11,010	10,025	10
Income tax expense	(1,707)	(7)	n.m.	(2,141)	(230)	831
Profit for the year	3,975	5,535	(28)	8,869	9,795	(9)
Attributable to:						
Equity holders of the company	4,228	4,353	(3)	8,971	8,357	7
Minority interests	(253)	1,182	n.m.	(102)	1,438	n.m.
	3,975	5,535	(28)	8,869	9,795	(9)

n.m. : not meaningful

1(a)(ii)

	Group	Group		Group	Group	
	3 months	3 months		6 months	6 months	
	ended	ended	+ / (-)	ended	ended	+ / (-)
	30/06/2008	30/06/2007	%	30/06/2008	30/06/2007	%
	\$'000	\$'000		\$'000	\$'000	
<u>Other Credits/(Charges)</u>						
Staff costs	(2,146)	(1,592)	35	(3,961)	(2,744)	44
Research and development	(485)	(477)	2	(765)	(801)	(4)
Depreciation	(858)	(526)	63	(1,574)	(1,111)	42
Rental	(263)	(211)	25	(538)	(458)	17
Net foreign currency exchange loss	(302)	(127)	138	(945)	(619)	53
Interest income	462	857	(46)	1,409	2,112	(33)
Interest expense on convertible bonds	(1,254)	(1,183)	6	(2,509)	(2,366)	6
Government grants	788	404	95	1,368	624	119

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 year.

**1(b)(i)
UNAUDITED BALANCE SHEETS**

	Group 3/06/2008 \$'000	Group 31/12/2007 \$'000	Company 30/06/2008 \$'000	Company 31/12/2007 \$'000
Non-current assets				
Trade receivables	734	723	-	-
Long term financial receivables	49,765	30,167	-	-
Prepaid land rental	32,917	21,885	-	-
Subsidiaries	-	-	6,900	6,900
Associates	32,517	30,086	-	-
Available-for-sale investment	6,678	5,963	-	-
Property, plant and equipment	35,766	30,115	-	-
Long-term loan receivable	8,080	7,880	-	-
Goodwill	446	446	-	-
	<u>166,903</u>	<u>127,265</u>	<u>6,900</u>	<u>6,900</u>
Current assets				
Trade receivables	34,764	34,200	-	-
Current portion of long-term financial receivables	4,774	1,396	-	-
Other receivables and prepayments	54,111	57,439	171,786	166,295
Prepaid land rental	745	470	-	-
Inventories	19,968	14,186	-	-
Cash and cash equivalents	88,861	113,681	1,741	3,721
Pledged bank deposits	164	71	-	-
	<u>203,387</u>	<u>221,443</u>	<u>173,527</u>	<u>170,016</u>
Current liabilities				
Trade payables	24,645	23,626	-	-
Other payables and accrued expenses	12,034	11,730	89	217
Bank loan	9,837	9,594	-	-
Income tax payable	1,253	634	-	288
	<u>47,769</u>	<u>45,584</u>	<u>89</u>	<u>505</u>
Net current assets	<u>155,618</u>	<u>175,859</u>	<u>173,438</u>	<u>169,511</u>
Non-current liabilities				
Bank loan	-	-	-	-
Convertible loan notes	84,055	81,546	84,055	81,546
Deferred tax liabilities	647	341	-	-
Deferred income	1,728	1,778	-	-
	<u>86,430</u>	<u>83,665</u>	<u>84,055</u>	<u>81,546</u>
Net assets	<u><u>236,091</u></u>	<u><u>219,459</u></u>	<u><u>96,283</u></u>	<u><u>94,865</u></u>

1(b)(i) UNAUDITED BALANCE SHEETS (Cont.)

	Group 3/06/2008 \$'000	Group 31/12/2007 \$'000	Company 30/06/2008 \$'000	Company 31/12/2007 \$'000
Capital and reserves				
Share capital	90,727	90,727	90,727	90,727
Reserves	14,665	7,617	1,156	1,156
Retained earnings	103,303	94,332	4,400	2,982
Equity attributable to equity holders of the company	208,695	192,676	96,283	94,865
Minority interests	27,396	26,783	-	-
Total equity	236,091	219,459	96,283	94,865

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

Amount repayable in one year or less, or on demand

As at 30/06/2008		As at 31/12/2007	
Secured \$'000	Unsecured \$'000	Secured \$'000	Unsecured \$'000
Nil	9,837	Nil	9,594

Amount repayable after one year

As at 30/06/2008		As at 31/12/2007	
Secured \$'000	Unsecured \$'000	Secured \$'000	Unsecured \$'000
Nil	84,055	Nil	81,546

Details of any collateral

Not applicable

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

1(c)

UNAUDITED CASH FLOW STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

	Group	
	6 months ended 30/06/2008 \$'000	6 months ended 30/06/2007 \$'000
Operating activities		
Profit before income tax	11,010	10,025
Adjustments for:		
Share of profits of associates	(2,430)	(1,260)
Depreciation of property, plant and equipment	1,574	1,111
Loss on disposal of property, plant and equipment	11	4
Amortisation of prepaid land rental	364	-
Interest expense	2,848	2,704
Finance income	(1,987)	-
Interest income	(1,409)	(2,112)
Operating cash flows before movements in working capital	9,981	10,472
Trade receivables	(564)	(4,052)
Other receivables and prepayments	3,328	(19,575)
Inventories	(5,782)	(639)
Trade payables	1,019	2,139
Other payables and accrued expenses	304	(3,325)
Deferred income	(50)	81
Cash generated from (used in) operations	8,236	(14,899)
Income tax paid	(1,216)	(344)
Net cash from (used in) operating activities	7,020	(15,243)
Investing activities		
Interest received	1,409	2,112
Increase in financial receivables	(20,989)	-
Purchase of property, plant and equipment	(6,519)	(1,176)
Acquisition of additional equity investment in existing subsidiaries	-	(1,710)
Prepayment of land rental	(11,671)	-
Net cash used in investing activities	(37,770)	(774)
Financing activities		
Bank loan	-	244
Dividend paid to minority interests	-	(1,577)
Fixed deposits pledged to financial institutions	(93)	(41)
Interest paid	(339)	(338)
Net cash used in financing activities	(432)	(1,712)
Net decrease in cash and cash equivalents	(31,182)	(17,729)
Cash and cash equivalents at beginning of financial period	113,681	146,238
Effects of exchange rate changes	6,362	2,443
Cash and cash equivalents at end of financial period	88,861	130,952

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.

(1)(d)(i)

UNAUDITED STATEMENTS OF CHANGES IN EQUITY

	Share capital \$'000	Retained earnings \$'000	Other reserve \$'000	Legal reserve \$'000	Capital reserve \$'000	Translation deficit \$'000	Attributable to equity holders of the company \$'000	Minority interests \$'000	Total equity \$'000
Group									
Balance as at 1 January 2008	90,727	94,332	1,023	8,353	1,156	(2,915)	192,676	26,783	219,459
Profit for the period	-	4,743	-	-	-	-	4,743	151	4,894
Gain on available-for-sale investment	-	-	954	-	-	-	954	-	954
Exchange difference arising on translation of foreign operations	-	-	-	-	-	(181)	(181)	44	(137)
Balance as at 31 March 2008	90,727	99,075	1,977	8,353	1,156	(3,096)	198,192	26,978	225,170
Profit for the period	-	4,228	-	-	-	-	4,228	(253)	3,975
Loss on available-for-sale investment	-	-	(238)	-	-	-	(238)	-	(238)
Exchange difference arising on translation of foreign operations	-	-	-	-	-	6,513	6,513	671	7,184
Balance as at 30 June 2008	90,727	103,303	1,739	8,353	1,156	3,417	208,695	27,396	236,091
Balance as at 1 January 2007	90,727	68,193	1,500	4,284	1,156	(3,179)	162,681	6,892	169,573
Profit for the period	-	4,004	-	-	-	-	4,004	256	4,260
Exchange difference arising on translation of foreign operations	-	-	-	-	-	(211)	(211)	231	20
Balance as at 31 March 2007	90,727	72,197	1,500	4,284	1,156	(3,390)	166,474	7,379	173,853
Profit for the period	-	4,353	-	-	-	-	4,353	1,182	5,535
Transfer to legal reserve	-	(1,315)	-	1,315	-	-	-	-	-
Minority interests' share of reserve	-	-	-	(410)	-	-	(410)	410	-
Dividend paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	(1,577)	(1,577)
Distribution to minority interests	-	-	-	-	-	-	-	(1,710)	(1,710)
Exchange difference arising on translation of foreign operations	-	-	-	-	-	2,867	2,867	10	2,877
Balance as at 30 June 2007	90,727	75,235	1,500	5,189	1,156	(523)	173,284	5,694	178,978

(1)(d)(i) UNAUDITED STATEMENTS OF CHANGES IN EQUITY (Cont.)

	Share capital \$'000	Retained earnings \$'000	Other reserve \$'000	Legal reserve \$'000	Capital reserve \$'000	Translation deficit \$'000	Total \$'000
Company							
Balance as at 1 January 2008	90,727	2,982	-	-	1,156	-	94,865
Loss for the period	-	(2,024)	-	-	-	-	(2,024)
Balance as at 31 March 2008	90,727	958	-	-	1,156	-	92,841
Profit for the period	-	3,442	-	-	-	-	3,442
Balance as at 30 June 2008	90,727	4,400	-	-	1,156	-	96,283
Balance as at 1 January 2007	90,727	8,167	-	-	1,156	-	100,050
Loss for the period	-	(758)	-	-	-	-	(758)
Balance as at 31 March 2007	90,727	7,409	-	-	1,156	-	99,292
Loss for the period	-	(750)	-	-	-	-	(750)
Balance as at 30 June 2007	90,727	6,659	-	-	1,156	-	98,542

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 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.

During the second quarter ended 30 June 2008, the issued capital of the group and of the company remained unchanged. No options were granted nor new shares issued pursuant to the employees' share option Scheme.

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 immediate preceding year.

	30/06/2008	31/12/2007
Total number of issued shares	461,780,000	461,780,000
Total number of treasury shares	-	-
Total number of issued shares excluding treasury shares	461,780,000	461,780,000

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

Not applicable.

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

The figures have not been audited or reviewed by the company's auditors.

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

The accounting policies have been consistently applied by the group and the company and are consistent with those used in the previous financial year.

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.**

Not applicable.

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.**

Earnings Per Share

	Group	
	6 months ended 30/06/2008 cents	6 months ended 30/06/2007 cents
Earnings per ordinary share after deducting any provision for preference dividends were:		
i) Based on the weighted average number of ordinary shares in issue (see note 6a)	1.94	1.81
ii) On a fully diluted basis (see note 6b)	1.94	1.81

Note:

6a : Earnings per ordinary share have been computed based on the number of shares issued and outstanding during the period of 461,780,000.

6b : The effect of convertible loan notes is anti-dilutive and hence has not been taken into account for the calculation of diluted earnings per share for both periods.

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.**

Net Asset Value

	Group 30/06/2008 Cents	Group 31/12/2007 Cents	Company 30/06/2008 Cents	Company 31/12/2007 Cents
Net asset value per ordinary share based on issued share capital as at the end of the financial period	45.19	41.72	20.85	20.54

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**
- (a) **any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
 - (b) **any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Income Statement

Three Months Ended 30 June 2008

The Group's revenue increased by 14% year-on-year from \$27.5 million in 2Q 2007 to \$31.3 million in 2Q 2008. The increase came mainly from the Group's water business which partially offset the decrease in both membrane process and engineering business, and downstream business.

However, gross profit was lower by 5% from \$8.1 million in 2Q 2007 to \$7.7 million in 2Q 2008 due mainly to lower contribution from our downstream business as a result of rising material prices, energy costs and other costs of production, despite improved contribution from the Group's water business.

Other operating income increased by 104% to \$2.3 million, mainly attributable to the increase in finance income from long-term financial receivables arising from the Transfer-Operate-Transfer ("TOT") projects, and higher government grants.

Selling and distribution expenses increased by 27% from \$0.8 million in 2Q 2007 to \$1.0 million in 2Q 2008 mainly due to costs associated with the new subsidiary engaged in the production and sale of active carbon.

General and administrative expenses increased by 57% year-on-year from \$2.1 million in 2Q 2007 to \$3.3 million in 2Q 2008 mainly due to higher staff costs and foreign exchange loss incurred

Contribution from associates increased by 144% from \$0.6 million to \$1.4 million due to strong performance of Shandong Tianli Biochemical and maiden contribution from Xinyuan Wastewater (Ji'an) Co., Ltd.

Profit before income tax increased marginally by 3% year-on-year from \$5.5 million in 2Q 2007 to \$5.7 million in 2Q 2008 mainly due to contribution from the Group's water business and higher contribution from associates.

Income Statement

Three Months Ended 30 June 2008 (Cont.)

Income tax expenses increased from \$0.007 million in 2Q2007 to \$1.7 million in 2Q2008, leading to a higher effective tax rate of 30% in 2Q 2008, compared to a nearly 0% effective tax rate in 2Q 2007. The increase in effective tax rate was due mainly to tax expenses estimated for the Group's water business for which profits are subject to the tax statutory rate of 25% in FY2008, and losses incurred by certain of the Group's subsidiaries.

Six Months Ended 30 June 2008

The Group's revenue increased by 12% year-on-year from \$48.2 million in 1H 2007 to \$54.2 million in 1H 2008. The higher revenue was mainly due to contributions from the downstream business and the Group's water business.

Gross profit increased marginally by 1% to \$14.6 million mainly attributable to contribution from the Group's water business.

Other operating income increased by 108%, from \$2.6 million in 1H2007 to \$5.4 million in 1H2008, due mainly to financial income on operating services of the Group's water business, higher government grants and investment income.

Selling and distribution expenses increased by 41% from \$1.3 million in 1H 2007 to \$1.9 million in 1H 2008 mainly due to increase in distribution related expenses incurred by downstream business.

General and administrative expenses increased by 57% year-on-year from \$4.2 million in 1H 2007 to \$6.7 million in 1H 2008 mainly due to higher staff costs, depreciation, and foreign exchange loss incurred.

Income tax expenses for 1H 2007 and 1H 2008 were \$0.2 million and \$2.1 million respectively, representing effective tax rate of 2% and 19% respectively. The effective tax rate for 1H 2008 was higher due to the provision of tax expenses for the Group's water business, and losses in certain of our subsidiaries.

Balance Sheet

Long term financial receivables increased from \$30.2 million as at 31 December 2007 to \$49.8 million as at 30 June 2008 mainly due to a greater number of Build-Operate-Transfer ("BOT") and Transfer-Operate-Transfer ("TOT") projects recognized in accordance with INT FRS 112.

As at 30 June 2008, other receivables and prepayments decreased from \$57.4 million to \$54.1 million, due largely to a reduction in deposits made for assets purchases.

Compared to 31 December 2007, inventories increased 41% from \$14.2 million to \$20.0 million mainly due to increase in work in progress for membrane process and engineering business, finished goods for downstream business.

There were no material changes in trade receivables, trade payables, other payables and accrued expenses.

Cashflow

Operating cash flow was an inflow of \$7.0 million mainly due to decrease in other receivables and prepayment.

The cashflow from investing activities showed an outflow of \$37.8 million due largely to increase in financial receivables and prepayment of land rental.

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

In 1Q 2008, the management expected the downstream business to improve in FY 2008. However, in 2Q 2008, the Group's downstream business registered decline in sales and profitability due to a weaker than expected performance in one of the key subsidiaries, Reyphon Agriceutical Ltd, as a result of bad weather during early part of the year, higher material prices, energy costs and other costs of production.

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.

The market of our membrane process and engineering business is expected to remain very competitive in 2H 2008, aggravated by macro economic tightening in China and a weak US economy. However, we see strong demand in certain segments, such as newly developed membrane based industrial wastewater treatment solution and overseas markets such as India and Indonesia.

Our membrane material business is expected to perform well due to strong demand for our MBR modules and more competitive prices offered for our lower-end mass products.

Riding on our proprietary technologies, we expect the growth momentum in our water business to be maintained in 2H 2008.

Management expects that the market and operating environment of our key downstream business to remain challenging in FY2008.

In continuing efforts to broaden the range of our product offerings, we plan to setup R&D activities to explore opportunities in new applications such as membrane-based solar grade polysilicon production process.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

None.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12. If no dividend has been declared/recommended, a statement to that effect.

Not applicable.

13. Board Negative Assurance Confirmation for Interim Financial Results

The Board of Directors of Sinomem Technology Limited hereby confirms that, to the best of their knowledge, nothing has come to their attention which may render the unaudited financial results for the second quarter ended 30 June 2008 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

Chew Kok Liang
Company Secretary

12 August 2008