

SINOMEM TECHNOLOGY LIMITED (REGISTRATION NO: 200208107G)

FIRST HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30/06/2006

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 SECOND QUARTER AND HALF YEAR ENDED 30 JUNE 2006

	Group 3 months ended 30/06/2006 \$'000	Group 3 months ended 30/06/2005* \$'000	Increase / (Decrease) %	Group 6 months ended 30/06/2006 \$'000	Group 6 months ended 30/06/2005* \$'000	Increase / (Decrease) %
Revenue	20,606	19,443	6	41,830	33,860	24
Cost of sales	(12,110)	(12,748)	(5)	(26,760)	(20,700)	29
Gross profit	8,496	6,695	27	15,070	13,160	15
Other operating income	136	746	(82)	946	903	5
Selling and distribution expenses	(690)	(373)	85	(1,279)	(791)	62
General and administrative expenses	(1,867)	(1,304)	43	(3,074)	(2,964)	4
Operating Profit	6,075	5,764	5	11,663	10,308	13
Finance cost	(161)	(23)	600	(259)	(43)	502
Share of profits of associate	753	(12)	n.m.	1,233	(22)	n.m.
Profit before tax	6,667	5,729	16	12,637	10,243	23
Income tax expense	(94)	(171)	(45)	(198)	(325)	(39)
Profit after tax	6,573	5,558	18	12,439	9,918	25
Attributable to:						
Equity holders of parent	5,604	4,848	16	11,120	8,984	24
Minority interests	969	710	36	1,319	934	41
	6,573	5,558	18	12,439	9,918	25

* Certain comparative figures have been restated to conform with the new/revised FRSs and INT FRSs.

1(a)(ii)

	Group 3 months ended 30/06/2006 \$'000	Group 3 months ended 30/06/2005 \$'000	Increase / (Decrease) %	Group 6 months ended 30/06/2006 \$'000	Group 6 months ended 30/06/2005 \$'000	Increase / (Decrease) %
<u>Other Credits/(Charges)</u>						
Staff costs	(1,314)	(1,248)	5	(2,445)	(1,805)	35
Research and development	(208)	(563)	(63)	(347)	(699)	(50)
Depreciation	(480)	(514)	(7)	(1,020)	(992)	3
Rental	(143)	(115)	24	(291)	(244)	19
Exchange differences	(80)	631	n.m.	(244)	448	n.m.
Interest income	351	219	60	707	280	153
Gain from disposal of quoted investments	-	-	n.m.	256	-	n.m.

n.m.: not meaningful

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 30/06/2006 \$'000	Group 31/12/2005 \$'000	Company 30/06/2006 \$'000	Company 31/12/2005 \$'000
Fixed assets	14,898	16,157	-	-
Investment in associate	39,790	28,488	-	-
Investment in subsidiaries	-	-	6,000	6,000
	<u>54,688</u>	<u>44,645</u>	<u>6,000</u>	<u>6,000</u>
Current assets				
Trade receivables	20,629	22,190	-	-
Other receivables and prepayments	14,964	8,264	72,037	59,234
Held for trading investment	-	1,261	-	-
Inventories	5,408	6,007	-	-
Cash and bank balances	79,400	94,693	16,674	34,043
Pledged bank deposits	79	845	-	-
	<u>120,480</u>	<u>133,260</u>	<u>88,711</u>	<u>93,277</u>
Current liabilities				
Trade payables	8,010	8,396	-	-
Other payables	3,722	11,167	33	200
Bank loan, unsecured	6,930	6,180	-	-
Income tax payable	497	1,064	20	70
	<u>19,159</u>	<u>26,807</u>	<u>53</u>	<u>270</u>
Net current assets	<u>101,321</u>	<u>106,453</u>	<u>88,658</u>	<u>93,007</u>
Non-current liabilities				
Deferred income	1,140	1,333	-	-
	<u>1,140</u>	<u>1,333</u>	<u>-</u>	<u>-</u>
Net assets	<u>154,869</u>	<u>149,765</u>	<u>94,658</u>	<u>99,007</u>
Capital and reserves				
Issued capital	90,727	9,236	90,727	9,236
Share premium	-	81,491	-	81,491
Reserves	59,195	55,139	3,931	8,280
	<u>149,922</u>	<u>145,866</u>	<u>94,658</u>	<u>99,007</u>
Minority interests	<u>4,947</u>	<u>3,899</u>	<u>-</u>	<u>-</u>
Total capital and reserves	<u>154,869</u>	<u>149,765</u>	<u>94,658</u>	<u>99,007</u>

Note: In accordance with the Companies Act amendments, share premium will form part of share capital with effect 30 January 2006

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

Amount repayable in one year or less, or on demand

As at 30/06/2006		As at 31/12/2005	
Secured \$'000	Unsecured \$'000	Secured \$'000	Unsecured \$'000
Nil	6,930	Nil	6,180

Amount repayable after one year

As at 30/06/2006		As at 31/12/2005	
Secured \$'000	Unsecured \$'000	Secured \$'000	Unsecured \$'000
Nil	Nil	Nil	Nil

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 HALF YEAR ENDED 30 JUNE 2006

	Group	
	6 months ended 30/06/2006 \$'000	6 months ended 30/06/2005 \$'000
Cash flow from operating activities:		
Profit before tax	12,637	10,243
Adjustments for:		
Share of loss (gain) of associate company	(1,233)	22
Depreciation of property, plant and equipment	1,020	992
Loss on disposal of property, plant and equipment	286	-
Allowance for doubtful debts	-	12
Interest expense	259	42
Interest income	(707)	(323)
Operating profit before working capital changes	12,262	10,988
Fixed deposits unpledged from financial institutions	766	2,824
Trade receivables	1,561	(5,960)
Other receivables	(6,700)	(1,790)
Inventories	599	(3,574)
Financial assets	-	502
Trade payables	(386)	(3,626)
Other payables	(7,445)	(4,603)
Deferred income	(193)	24
Cash from (used in) operations	464	(5,215)
Interest received	707	323
Income tax paid	(765)	(337)
Net cash from (used in) operating activities	406	(5,229)
Cash flow from investing activities:		
Purchase of fixed assets	(613)	(1,736)
Proceeds from sale of an asset classified as held for trading investment	1,261	-
Investment in associates	(10,068)	(4,250)
Contribution by minority interests	0	79
Net cash (used in) generated from investing activities	(9,420)	(5,907)
Cash flow from financing activity:		
Dividend paid	(4,618)	(4,000)
Bank loan	750	-
Interest paid	(259)	(42)
Net cash from (used in) financing activities	(4,127)	(4,042)
Net effect of exchange rate changes in consolidating subsidiaries	(2,152)	1,468
Net (decrease) increase in cash and cash equivalents	(15,293)	(13,710)
Cash and cash equivalents at beginning of financial period	94,693	61,038
Cash and cash equivalents at end of financial period	79,400	47,328

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.

UNAUDITED STATEMENTS OF CHANGES IN EQUITY

	Attributable to Shareholders of the Company						Total	Minority interest	Total equity
	Issued capital	Share premium	Accumulated profits	Other reserves	Legal reserves	Translation reserves			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000			
Group									
Balance as at 1 January 2006	9,236	81,491	50,071	1,500	3,889	(321)	145,866	3,899	149,765
Adjustment arising from abolition of par value of shares	81,491	(81,491)	-	-	-	-	-	-	-
Profit for the period	-	-	5,516	-	-	-	5,516	350	5,866
Transfer to legal reserves	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	(1,403)	(1,403)	(74)	(1,477)
Balance as at 31 March 2006	90,727	-	55,587	1,500	3,889	(1,724)	149,979	4,175	154,154
Profit for the period	-	-	5,604	-	-	-	5,604	969	6,573
Dividend paid	-	-	(4,618)	-	-	-	(4,618)	-	(4,618)
Currency translation differences	-	-	-	-	-	(1,043)	(1,043)	(197)	(1,240)
Balance as at 30 June 2006	90,727	-	56,573	1,500	3,889	(2,767)	149,922	4,947	154,869
Balance as at 1 January 2005	8,000	39,828	31,054	1,500	3,558	(1,226)	82,714	7,020	89,734
Profit for the period	-	-	4,136	-	-	-	4,136	224	4,360
Transfer to legal reserves	-	-	(1,108)	-	1,108	-	-	-	-
Currency translation differences	-	-	-	-	-	210	210	10	220
Balance as at 31 March 2005	8,000	39,828	34,082	1,500	4,666	(1,016)	87,060	7,254	94,314
Profit for the period	-	-	4,848	-	-	-	4,848	710	5,558
Dividend paid	-	-	(4,000)	-	-	-	(4,000)	-	(4,000)
Currency translation differences	-	-	-	-	-	634	634	100	734
Balance as at 30 June 2005	8,000	39,828	34,930	1,500	4,666	(382)	88,542	8,064	96,606

	Issued capital	Share premium	Accumulated profits	Total
	\$'000	\$'000	\$'000	\$'000
Company				
Balance as at 1 January 2006	9,236	81,491	8,280	99,007
Transfer to share capital	81,491	(81,491)	-	-
Profit for the period	-	-	106	106
Balance as at 31 March 2006	90,727	-	8,386	99,113
Profit for the period	-	-	163	163
Dividend paid	-	-	(4,618)	(4,618)
Balance as at 30 June 2006	90,727	-	3,931	94,658

Balance as at 1 January 2005	8,000	39,828	6,084	53,912
Profit for the period	-	-	335	335
Balance as at 31 March 2005	8,000	39,828	6,419	54,247
Profit for the period	-	-	430	430
Dividend paid	-	-	(4,000)	(4,000)
Balance as at 30 June 2005	8,000	39,828	2,849	50,677

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 first half year ended 30 June 2006, 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.

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	Group
	6 months ended	6 months ended
	30/06/2006	30/06/2005
Earnings per ordinary share after deducting any provision for preference dividends were:		
Based on the weighted average number of ordinary shares in issue; and	2.41 cents	2.24 cents
On a fully diluted basis	2.41 cents	2.24 cents

Earnings per ordinary share have been computed based on the number of shares issued and outstanding during the period of 461,780,000 (30/06/2005: 400,000,000 shares).

There were no potential dilutive ordinary shares.

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

Net Asset Value

	Group	Group	Company	Company
	30/06/2006	31/12/2005	30/06/2005	31/12/2005
	Cents	Cents	Cents	Cents
Net asset value per ordinary share based on issued share capital as at the end of the financial period	32.47	31.59	20.49	21.44

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

1H 2006 vs 1H 2005

For the six months ended 30 June 2006, Group revenue was up 24% year-on-year to S\$41.8 million, mainly due to the higher contribution from gibberellins manufacturing, which registered 54% increase in sales. The gibberellins manufacturing generated S\$15.0 million

revenue and accounted for 36% of the total Group revenue in 1H2006, compared with 29% in 1H2005. Gross profit was up by 15% to S\$15.0 million due to higher revenue during the period. Gross margin slightly decreased from 38% in 1H2005 to 36% in 1H2006 mainly due to higher gibberellins revenue which normally commands lower gross profit margin than our process/engineering technology business.

Selling and distribution cost increased 62% compared with one year ago, mainly due to increased marketing activities by our gibberellin manufacturing subsidiary Jiangxi New Reyphon Biochemical Co., Ltd (JNRB). Administrative cost increased marginally by 4% year-on-year. However, as a percentage of revenue, it declined from 8.8% in 1H2005 to 7.4% as a result of better economies of scale.

Share of profit from associate companies increased to S\$1.2 million compared to marginal loss in 1H2005, mainly due to the contribution from our 30% owned Shandong Tianli Biochem Co(STBC), and earnings turnaround at our 50% owned Microdyn Nadir.

Profit before tax improved by 23% from S\$10.2 million for 1H 2005 to S\$12.6 million due to the strong contribution from our downstream nutraceutical manufacturing business and improvement of Microdyn Nadir's profitability.

The income tax expense decreased by 39% to S\$0.2 million due to 1.6 percentage points drop in effective tax rate to 1.6%. This is mainly because the group's subsidiary, Jiangxi New Reyphon Biochemical Co., Ltd has been granted tax exemption for the first two years beginning year 2006 and 50% relief from PRC income tax for the subsequent three years.

Profit attributable to shareholders increased by 24% to S\$11.1 million, compared with 1H2005.

2Q 2006 vs 2Q 2005

Revenue increased 6% year-on-year to S\$20.6 million, mainly due to the strong performance of our downstream nutraceutical manufacturing business. The gross margin improved to 41% in 2Q2006 from 34% one year ago due to higher margin membrane process/engineering jobs secured during the quarter and higher gibberellins selling price.

General and administrative cost increased 43%, compared with one year ago. This is mainly due to a foreign exchange loss of S\$0.1 million, compared with S\$0.6 million gain in 2Q2005. If we exclude the impact of foreign exchange, the general and administrative cost would be 8% lower than 2Q2005.

Profit before tax improved by 16% to S\$6.7 million for 2Q 2006 due to higher sales, improvement in gross profit margin and stronger contribution from associate companies.

Profit attributable to shareholders increased 16% year-on-year to S\$ 5.6 million.

Balance Sheet

As at 30 June 2006, the group had cash and cash equivalents of S\$79 million and gross debt of S\$7 million, resulting in a net cash position of S\$72 million. Net cash per share was 15.69 cents. Account receivables reduced to S\$20.6 million from S\$22.2 million as at 31 December 2005 due to increased efforts in bill collection during the period. Investment in associates increased by S\$11 million arising from the investment in Sinphon Bioscience (Ji'an) Co., Ltd. Other receivables increased by S\$6.7 millions mainly due to the prepayment for equipment to be installed in our new fermentation plant in Ji An, Jiangxi Province.

Days	2Q 2006	Q4 2005	Q1 2006
Average Receivables Turnover	97	83	97
Average Inventory Turnover	30	35	44
Average Payables Turnover	42	43	59

Cash Cycle*	85	75	82
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*Cash Cycle = Avg Receivables Turnover + Average Inventory Turnover- Average Payables Turnover

Cash Flow

In 1H 2006, net cash generated from operation activities was approximately S\$0.4 million versus a negative cash flow of S\$5.2 million a year ago because of improvement in receivable collection. Cash used in investing activities of S\$9.4 million was mainly due to the investment in the new associated company, Sinphon Bioscience (Ji'an) Co., Ltd, which is set up to build a membrane-based nutraceutical production base to support the group's downstream business. Cash used in financing activities was S\$4.1 million, largely due to the payment of dividend.

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

Not applicable.

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

There is no variance between the actual results and in the previous announcement.

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.

China membrane industry are expected to remain competitive. However, we are optimistic that our position as a market leader will be strengthened through the implementation of our Research, Development, Pilot-testing and Application (RDPA) program.

The construction of our new fermentation plant in Ji An Jiangxi production is expected to be completed by the end of FY2006, which will enable us to start producing gibberellins and xanthan gum in the new plant in 1Q2007. With the adoption of new fermentation process, membrane-based separation process and better economy of scale, we expect to achieve significant cost advantage over our competitors.

The new Xiamen membrane plant is expected to commence production in last quarter of 2006. Riding on lower cost in China and strong market interest in our internationally patented second generation Membrane BioReactor- BIO-CEL, we are optimistic that Microdyn Nadir's profitability will continue to improve.

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.

**PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT
(This part is not applicable to Q1, Q2, Q3 or Half Year Results)**

13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.

Only applies to full year results.

14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.

Only applies to full year results.

15. A breakdown of sales.

Only applies to full year results.

- 16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.**

Only applies to full year results.

BY ORDER OF THE BOARD

**DR LAN WEIGUANG
MANAGING DIRECTOR**