



## MEMSTAR TECHNOLOGY LTD.

First Quarter Financial Statement and Dividend Announcement for the Period Ended 30 September 2012

### PART I: Information required for announcements of Quarterly (Q1, Q2 & Q3), Half-Year and Full Year Results

1 (a)(i) A statement of comprehensive income for the Group together with a comparative statement for the corresponding period of the immediately preceding financial year.

Group			
	3 months ended 30/9/2012 RMB'000	3 months ended 30/9/2011 RMB'000	Increase/ (Decrease) %
<b>Revenue</b>	54,498	37,586	45.0
Cost of sales	(21,598)	(17,903)	20.6
<b>Gross profit</b>	32,900	19,683	67.1
Other income	2	20	(90.0)
Selling and distribution expenses	(1,553)	(1,102)	40.9
Administrative expenses	(6,020)	(6,231)	(3.4)
Research and development costs	(2,355)	(1,821)	29.3
Other operating (expenses)/income	(1,623)	4,838	(133.5)
Finance income	339	483	(29.8)
Finance cost	(2,951)	(605)	387.8
<b>Profit before income tax</b>	18,739	15,265	22.8
Income tax expense	(1,621)	(405)	300.2
<b>Profit for the period</b>	<b>17,118</b>	<b>14,860</b>	<b>15.2</b>
<b>Profit attributable to</b>			
- Owners of the Company	15,032	10,585	42.0
- Non-controlling interests	2,086	4,275	(51.2)
	17,118	14,860	15.2
<b>Statement of Comprehensive Income</b>			
Net profit for the period	17,118	14,860	15.2
Currency translation gain/(loss)	3,850	(4,634)	(183.1)
<b>Total comprehensive income for the period</b>	<b>20,968</b>	<b>10,226</b>	<b>105.0</b>
<b>Total comprehensive income attributable to</b>			
- Owners of the Company	18,984	5,565	241.1
- Non-controlling interests	1,984	4,661	(57.4)
	20,968	10,226	105.0

**1 (a)(ii) The accompanying notes to the financial statements form an integral part of the financial statements**

	<b>3 months ended 30/9/2012 RMB'000</b>	<b>3 months ended 30/9/2011 RMB'000</b>	<b>Increase/ (Decrease) %</b>
Profit before income tax is arrived at after charging/(crediting) the following:			
Cost of inventories sold	18,502	7,286	153.9
Depreciation of property, plant and equipment	2,088	2,165	(3.6)
Amortisation of land use rights	60	60	-
Amortisation of intangible asset	102	105	(2.9)
Employee share option expense	-	593	(100.0)
Loss/(gain) on foreign exchange	1,629	(3,469)	(147.0)
Interest expense	2,951	605	387.8
Interest income	(339)	(483)	(29.8)

**1(b)(i) A statement of financial position (for the Issuer and Group), together with a comparative statement as at the end of the immediately preceding financial year.**

	Group		Company	
	As at 30/9/12 RMB'000	As at 30/6/12 RMB'000	As at 30/9/12 RMB'000	As at 30/6/12 RMB'000
<b>Non-current assets</b>				
Investment in subsidiaries	-	-	511,672	511,672
Investment in associate	3,600	3,600	-	-
Property, plant and equipment	102,412	104,208	40	54
Land use rights	10,749	10,809	-	-
Intangible asset	722	795	722	795
Service concession receivables	293,212	284,181	-	-
Finance lease receivables	2,302	2,762	-	-
	<u>412,997</u>	<u>406,355</u>	<u>512,434</u>	<u>512,521</u>
<b>Current assets</b>				
Inventories	26,286	27,092	15	957
Trade receivables	144,087	131,823	6,632	4,606
Other receivables	110,046	105,598	71,381	51,537
Service concession receivables	1,095	848	-	-
Finance lease receivables	1,841	1,841	-	-
Due from subsidiary	-	-	271,639	259,089
Cash and cash equivalents	149,590	139,717	21,402	19,624
	<u>432,945</u>	<u>406,919</u>	<u>371,069</u>	<u>335,813</u>
<b>Total assets</b>	<b><u>845,942</u></b>	<b><u>813,274</u></b>	<b><u>883,503</u></b>	<b><u>848,334</u></b>
<b>Equity attributable to owners of the Company</b>				
Share capital	277,258	277,258	828,003	828,003
Reserves	207,621	188,637	(100,064)	(105,563)
	<u>484,879</u>	<u>465,895</u>	<u>727,939</u>	<u>722,440</u>
Non-controlling interests	28,790	26,806	-	-
<b>Total equity</b>	<b><u>513,669</u></b>	<b><u>492,701</u></b>	<b><u>727,939</u></b>	<b><u>722,440</u></b>
<b>Non-current liabilities</b>				
Bank loans	150,196	112,626	-	-
Finance lease	136	163	-	-
Deferred tax liabilities	8,754	8,537	-	-
	<u>159,086</u>	<u>121,326</u>	<u>-</u>	<u>-</u>
<b>Current liabilities</b>				
Bank loans	47,106	44,327	-	-
Trade payables	48,710	54,584	-	-
Other payables	70,105	92,942	15,362	14,693
Due to subsidiary	-	-	140,202	111,201
Finance lease	136	131	-	-
Provision for income tax	7,130	7,263	-	-
	<u>173,187</u>	<u>199,247</u>	<u>155,564</u>	<u>125,894</u>
<b>Total liabilities</b>	<b><u>332,273</u></b>	<b><u>320,573</u></b>	<b><u>155,564</u></b>	<b><u>125,894</u></b>
<b>Total equity and liabilities</b>	<b><u>845,942</u></b>	<b><u>813,274</u></b>	<b><u>883,503</u></b>	<b><u>848,334</u></b>

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

	Group			
	30/9/2012		30/06/2012	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
<b>(a) Amount repayable in one year or less, or on demand</b>	47,106	136	44,327	131
<b>(b) Amount repayable after one year</b>	150,196	136	112,626	163

**Details of any collateral**

- (a) Facility of RMB35 million is secured by certain plant and equipment of subsidiary, Memstar (Mianyang) Co., Ltd and a corporate guarantee from another subsidiary.
- (b) The bank loan of RMB162.3 million of its subsidiary, Max Rise Water Services Holdings Ltd is secured by the service concession receivables and share pledge of its subsidiary, Bazhou Max Rise Water Services Sci-Tech Co., Ltd, charge on assets of Max Rise Water Services Holdings Ltd and corporate guarantees from its holding company (Max Rise Envirogroup Limited), ultimate holding company and a related party.

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

	<b>Group</b>	
	<b>3 months ended 30/9/2012 RMB'000</b>	<b>3 months ended 30/9/2011 RMB'000</b>
<b>Cash Flows from Operating Activities</b>		
Profit before income tax	18,739	15,265
Adjustments for:		
Depreciation of property, plant and equipment	2,088	2,165
Amortisation of land use rights	60	60
Amortisation of intangible asset	102	105
Employee share option expense	-	593
Interest expense	2,951	605
Interest income	(339)	(483)
Unrealised exchange loss/(gain)	1,092	(3,469)
Operating cash flow before working capital changes	24,693	14,841
Changes in working capital:		
Inventories	898	89
Receivables	(13,806)	962
Service concession receivables	(9,278)	(5,585)
Payables	(31,858)	(28,814)
<b>Cash used in operating activities</b>	<b>(29,351)</b>	<b>(18,507)</b>
Interest received	339	483
Interest paid	(1,075)	(605)
Income tax paid	(1,538)	(209)
<b>Net cash used in operating activities</b>	<b>(31,625)</b>	<b>(18,838)</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant and equipment	(209)	(334)
Finance lease receivable	460	-
<b>Net cash generated from/(used) in investing activities</b>	<b>251</b>	<b>(334)</b>
<b>Cash Flows from Financing Activities</b>		
Proceed from bank loan	40,349	-
Repayment of obligations under finance lease	(22)	(52)
<b>Net cash generated from/(used) in financing activities</b>	<b>40,327</b>	<b>(52)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>8,953</b>	<b>(19,224)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>139,717</b>	<b>63,230</b>
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	920	(622)
<b>Cash and cash equivalents at the end of the period</b>	<b>149,590</b>	<b>43,384</b>
<b>Represented by:</b>		
Cash on hand	47	68
Fixed deposits	-	13,000
Bank balances	149,543	30,316
	149,590	43,384

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.

## Group

	← Attributable to equity holders of the Company →						Non-controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Statutory reserves RMB'000	Share option reserve RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Attributable to owners of the Company RMB'000		
<b>Balance as at 1 July 2011</b>	277,258	12,564	3,746	4,454	116,828	414,850	23,532	438,382
Total comprehensive income/(loss) for the period	-	-	-	(5,020)	10,585	5,565	4,661	10,226
Employee share option scheme – value of employee services	-	-	593	-	-	593	-	593
<b>Balance as at 30 September 2011</b>	<b>277,258</b>	<b>12,564</b>	<b>4,339</b>	<b>(566)</b>	<b>127,413</b>	<b>421,008</b>	<b>28,193</b>	<b>449,201</b>
<b>Balance as at 1 July 2012</b>	277,258	14,462	4,611	(525)	170,089	465,895	26,806	492,701
Total comprehensive income for the period	-	-	-	3,952	15,032	18,984	1,984	20,968
<b>Balance as at 30 September 2012</b>	<b>277,258</b>	<b>14,462</b>	<b>4,611</b>	<b>3,427</b>	<b>185,121</b>	<b>484,879</b>	<b>28,790</b>	<b>513,669</b>

## Company

	Share capital RMB'000	Share option reserve RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
<b>Balance as at 1 July 2011</b>	828,003	3,746	7,412	(108,281)	730,880
Total comprehensive loss for the period	-	-	(9,501)	(2,931)	(12,432)
Employee share option scheme – value of employee services	-	593	-	-	593
<b>Balance as at 30 September 2011</b>	<b>828,003</b>	<b>4,339</b>	<b>(2,089)</b>	<b>(111,212)</b>	<b>719,041</b>
<b>Balance as at 1 July 2012</b>	828,003	4,611	(3,360)	(106,814)	722,440
Total comprehensive income/(loss) for the period	-	-	8,018	(2,519)	5,499
<b>Balance as at 30 September 2012</b>	<b>828,003</b>	<b>4,611</b>	<b>4,658</b>	<b>(109,333)</b>	<b>727,939</b>

**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.**

There is no change in the Company's share capital during the financial period from 1 July 2012 to 30 September 2012. There were a total of 14,100,000 unexercised share options as at 30 September 2012 (30 September 2011: 14,100,000). There are no other outstanding convertible securities as at 30 September 2012 and 30 September 2011.

**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.**

Total number of issued ordinary shares as at 30 September 2012 is 2,655,807,337 (30 September 2011: 2,655,807,337).

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

The Company does not have any treasury shares as at 30 September 2012 and 30 September 2011.

**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.

**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 Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period ended 30 September 2012 compared to the audited financial statements for the financial year ended 30 June 2012, except as disclosed in paragraph 5 below.

**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.**

The Group has adopted the Singapore Financial Reporting Standards ("SFRS") including improvements to SFRS and Interpretations of FRS ("INT FRS") that are mandatory for financial years beginning on or after 1 July 2012, where applicable, the application of these standards has no significant impact on the Group.

**6. Earnings per ordinary share of the Memstar 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.**

	Group	
	3 months ended 30/9/2012	3 months ended 30/9/2011
(a) Basic (in RMB cents) <sup>(1)</sup>	0.57	0.40
(b) Fully diluted basis (in RMB cents) <sup>(2)</sup>	0.57	0.40

Note:

- (1) Earnings per ordinary share of the Group for the three months period ended 30 September 2012 and 30 September 2011 have been computed based on 2,655,807,337 ordinary shares.
- (2) Diluted earnings per ordinary share of the Group for the three months period ended 30 September 2012 and 30 September 2011 have been computed based on the weighted average number of shares of 2,655,807,337 ordinary shares. There is no potential dilutive ordinary shares as the share options granted were anti-dilutive.

**7. Net asset value for the Memstar 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.**

	Group		Company	
	30/9/2012	30/06/2012	30/9/2012	30/6/2012
Net asset value per ordinary share based on issued share capital as at the end of the period (RMB cents)	18.26	17.54	27.41	27.20

The above net asset value per ordinary share of the Group and the Company have been computed based on the total issued share capital as at 30 September 2012 of 2,655,807,337 shares (30 June 2012: 2,655,807,337 shares).



8. A review of the performance of the Memstar Group, to the extent necessary for a reasonable understanding of the Memstar 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.

#### Statement of Comprehensive Income

The table below summarises the Group's revenue by business segments:-

	3 months ended 30/9/2012		3 months ended 30/9/2011		Change
	RMB'000	%	RMB'000	%	%
Membrane	38,391	70.4	15,869	42.3	141.9
Service Concession	16,107	29.6	21,717	57.7	(25.8)
Total	<b>54,498</b>	<b>100.0</b>	<b>37,586</b>	<b>100.0</b>	<b>45.0</b>

Revenue increased by RMB16.9 million or 45.0% from RMB37.6 million for the 3 months ended 30 September 2011 ("1Q FY2012") to RMB54.5 million for the 3 months ended 30 September 2012 ("1Q FY2013"). The increase was achieved mainly on higher revenue of the Group's membrane segment.

In line with the increase in revenue, gross profit increased by RMB13.2 million or 67.1% from RMB19.7 million for 1Q FY2012 to RMB32.9 million for 1Q FY2013. Gross profit margin improved to 60.4% for 1Q FY2013 from 52.4% for the corresponding quarter, mainly due to higher margins achieved from sales of membrane applications to larger scale projects.

In line with the increase in revenue, selling and distribution expenses comprising mainly salaries, commissions, travelling, entertainment and promotion expenses increased by RMB0.5 million from RMB1.1 million for 1Q FY2012 to RMB1.6 million for 1Q FY2013 due mainly to increase in marketing efforts and distribution costs from increased marketing activities.

Research and development costs increased by RMB0.6 million from RMB1.8 million for 1Q FY2012 to RMB2.4 million for 1Q FY2013 which was consistent with revenue increase.

Other operating expense of RMB1.6 million was due mainly to exchange loss in the current quarter compared to exchange gain recognised in the corresponding quarter arising mainly from revaluation of SGD and HKD to RMB.

Finance income amounted to RMB0.3 million and was marginally lower than corresponding quarter.

Finance cost relating to interest expense on finance lease and loan increased by RMB2.4 million from RMB0.6 million for 1Q FY2012 to RMB3.0 million for 1Q FY2013 due mainly to interests on new bank loans.

Income tax expense increased by RMB1.2 million from RMB0.4 million for 1Q FY2012 to RMB1.6 million 1Q FY2013 arising mainly from the tax incurred by subsidiaries on higher profits and deferred tax expense on service concession.

Net profit attributable to owners of the Company increased by RMB4.4 million or 42.0% from RMB10.6 million in 1Q FY2012 to RMB15.0 million in 1Q FY2013.

#### **Review of the Group's Financial Position as at 30 September 2012 as compared to the Group's Financial Position as at 30 June 2012**

#### Statement of Financial Position

Total non-current assets increased from RMB406.4 million as at 30 June 2012 to RMB413.0 million as at 30 September 2012. The increase was mainly due to additions of service concession receivables arising mainly from the investment in upgrading of the existing water treatment plant.

Total current assets increased from RMB406.9 million as at 30 June 2012 to RMB432.9 million as at 30 September 2012, representing an increase of RMB26.0 million.

The increase was due mainly to increases in cash and cash equivalents, trade receivables and other receivables as follows:

- a) Other receivables comprised mainly prepayments, deposits and other debtors increased from RMB105.6 million to RMB110.0 million, an increase of RMB4.4 million. The increase in other receivables of RMB4.4 million was due mainly to the increase in deposit for the purchase plant and equipment but offset by refund of tender deposit of RMB20.0 million.
- b) Trade receivables increased from RMB131.8 million to RMB144.1 million, an increase of RMB12.3 million which was consistent with the higher revenue generated during the current financial period. Subsequent to the current quarter, an approximate amount of RMB13.5 million had been collected.
- d) Cash and cash equivalents increased from RMB139.7 million to RMB149.6 million, an increase of RMB9.9 million arising mainly from bank loan raised during the period.

Total current liabilities decreased from RMB199.2 million as at 30 June 2012 to RMB173.2 million as at 30 September 2012, a decrease of RMB26.0 million. The decrease was mainly due to decreases in trade and other payables but offset by increase in bank loan drawdown.

Total non-current liabilities increased from RMB121.4 million as at 30 June 2012 to RMB159.1 million as at 30 September 2012 respectively. The increase was primarily due to increases in deferred tax liabilities from service concession and bank loan drawdown.

### **Statement of Cash Flows**

Net cash used in operating activities amounted to RMB31.6 million due mainly to higher profit from current period operations but offset by additions in concession receivables, increases in receivables and decreases in payables.

Net cash generated from financing activities amounted to RMB40.3 million due mainly to proceeds from bank loan.

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

Not applicable.

### **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.**

In The Freedonia Group's report on Water Treatment in China to 2015<sup>1</sup>, it is reported that the market for water treatment products in China is expected to grow 10.3% annually to RMB46.6 billion in 2015. The 12th Five-Year Plan has set several goals for water conservation and the prevention of water pollution, that require massive spending on wastewater treatment, and recycling programs, boosting demand for water treatment products. Growth in the municipal water treatment market will be spurred by the continued expansion of the nation's water supply and wastewater treatment infrastructure<sup>2</sup> as more municipal water infrastructure is needed to serve a growing urban population.

The Group will tap on such opportunities in China in providing its membrane products and services. Besides, the Group will also further develop its OEM capability building upon its partnership with Hydranautics.

The Group's Membrane segment will continue to be the main contributor to our Group's revenue and operating results. With our proprietary technologies, established track record and its research-based focus environment coupled with intensified sales and marketing efforts, the Group will continue to seek more opportunities with our existing customers and forge alliances with new partners for more and larger projects in the use of membrane products and services.

### **11. Dividend**

#### ***(a) Current Financial Period Reported On***

Any dividend declared for the current financial period reported on? No

#### ***(b) Corresponding Period of the Immediately Preceding Financial Year***

Any dividend declared for the corresponding period of the immediately preceding financial year? No

---

<sup>1</sup> <http://www.freedoniagroup.com/Water-Treatment-In-China.html>

<sup>2</sup> <http://www.prnewswire.com/news-releases/water-treatment-in-china-172091511.html>

**(c) Date payable**

Not applicable.

**(d) Books closure date**

Not applicable.

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

No dividend has been declared/recommendeded.

**13. Interested person transactions**

The Group does not have a general mandate from shareholders for interested person transactions pursuant to Rule 920 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST").

There were no interested person transactions entered into by the Group for the period ended 30 September 2012.

**Statement by Directors**

**Pursuant to SGX Listing Rule 705(5)**

To the best of our knowledge and belief, nothing has come to the attention of the Directors of the Company which may render the First Quarter Results of the Group for the financial period ended 30 September 2012 to be false or misleading in any material aspect.

On behalf of the Board

Pan Shuhong  
Director

Dr Ge Hailin  
Director

**By Order of The Board**

**Lee Seng Suan**  
**Company Secretary**

**14 November 2012**