

SINOMEM TECHNOLOGY LIMITED

Registration no.: 200208107G
(Incorporated in Singapore)

PROPOSED ISSUE OF S\$80,000,000 IN PRINCIPAL AMOUNT OF CONVERTIBLE BONDS DUE 2011 (THE "BONDS")

Introduction

The board of directors of Sinomem Technology Limited (the "**Company**") wishes to announce that it has on 16 November 2006 entered into a purchase agreement (the "**Purchase Agreement**") with Goldman Sachs (Singapore) Pte. (the "**Initial Purchaser**") in respect of the Bonds. Under the terms of the Purchase Agreement, the Company has agreed to issue, and the Initial Purchaser has agreed to purchase the Bonds on 14 December 2006 (or such other date as shall be agreed between the Company and the Initial Purchaser), which is the completion date for the issue and delivery of the Bonds (the "**Closing Date**"). The Bonds are convertible into 64,000,000 fully paid ordinary shares in the capital of the Company (collectively, the "**Conversion Shares**", and each, a "**Conversion Share**") at an initial conversion price of S\$1.25 per Conversion Share, subject to the terms of the Bonds. Goldman Sachs (Singapore) Pte. is acting as the lead manager in connection with the issue of the Bonds.

Purpose of the Issue

The estimated net proceeds from the sale of the Bonds are approximately S\$77,700,000. It is intended that these proceeds be used for the expansion of activities relating to product development and manufacturing of membranes as well as their applications.

Salient Terms and Conditions of the Bonds

The salient terms and conditions of the Bonds (the "**Conditions**") are summarised as follows:

Interest Rate

The Bonds do not bear any interest.

Form and Denomination

The Bonds are issued in registered form in the denomination of S\$1,000,000 each.

Conversion Right

Any Bond may be converted into Conversion Shares, at the option of the holder thereof, at any time on and after 20 December 2006 up to the close of business on 23 November 2011 or if such Bond shall have been called for redemption before 14 December 2011, then up to the close of business on a date no later than seven business days prior to the date fixed for redemption thereof. The maximum number of Conversion Shares to be issued to a single party shall not exceed 15 per cent. of the Company's enlarged issued share capital following the issue of such Conversion Shares.

Conversion Price

S\$1.25 per Conversion Share (the "**Conversion Price**"), subject to adjustment from time to time in the manner provided in the Conditions. The Conversion Price represents a premium of approximately 24.78% to the weighted average price of S\$1.0018 for trades done on the SGX-ST on 15 November 2006.

Dilution

Based on the Conversion Price (and assuming no adjustments to the Conversion Price), up to approximately 64,000,000 Conversion Shares are expected to be issued and allotted to the holders of the Bonds upon the full exercise of their right to convert the Bonds.

Following from this, the expected number of Conversion Shares to be issued and allotted is:

- (a) approximately 13.86% of the Company's issued share capital of 461,780,000 ordinary shares of the Company ("the **Shares**") at the time of the shareholders' mandate which was passed at the annual general meeting of the Company on 26 April 2006 (the "**AGM**") and currently in issue; and
- (b) approximately 12.17% of the Company's shares on an enlarged basis, assuming the Bonds are all converted into Conversion Shares.

Application to the Singapore Exchange Securities Trading Limited ("**SGX-ST**")

An application will be made to the SGX-ST in due course for the Conversion Shares to be admitted to the Official List of the SGX-ST and be listed for quotation on the SGX-ST. The proposed issue of the Conversion Shares is made pursuant to the shareholders' mandate given at the AGM to the Directors of the Company. The SGX-ST's in-principle approval, if given, shall not be construed as an indication of the merits of the proposed issue of the Bonds, the Conversion Shares or the Company.

Adjustment to Conversion Price

The Conditions also provide for adjustment to the Conversion Price in certain events, including the following: (a) consolidation, subdivision or reclassification of the Company's ordinary shares, (b) capitalisation of profits or reserves, (c) capital distribution, (d) rights issue of the Company's shares or option over shares, (e) rights issue of other securities, or (f) other offers to the Company's shareholders.

Redemption

Unless previously redeemed, converted or purchased and cancelled as provided in the Conditions, the Bonds will be redeemed by the Company at the outstanding principal amount plus redemption interest of 30.5 per cent. of its outstanding principal amount on 14 December 2011 (the "**Maturity Date**").

The Conditions provide optional redemption rights at the option of the Company in certain circumstances. These circumstances include:

- (a) **Redemption at the Option of the Company.** At any time after 14 December 2009 and prior to the Maturity Date, the Company may, having given not less than 30 nor more than 60 days' notice to the bondholders and the Principal Paying Agent (as defined in the Conditions) (which notice will be irrevocable), redeem all and not some only of the Bonds at the outstanding principal amount plus Early Redemption Interest Amount (as defined in the Conditions) (together, the "**Early Redemption Amount**") on the redemption date, provided, however, that no such redemption may be made unless (i) the closing price of the Shares (as quoted by the SGX-ST or, as the case may be, an alternative stock exchange, for each of the 30 consecutive trading days, the last day of which falls within five trading days prior to the date upon which notice of such redemption is given was at least 130 per cent. of the applicable Early Redemption Amount in effect on such trading day divided by the Conversion Ratio (as defined in the Conditions) or (ii) at least 90 per cent. in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.

- (b) **Redemption for Taxation Reasons.** At any time the Company may, having given not less than 30 nor more than 60 days' notice to the bondholders in accordance with the Conditions (which notice shall be irrevocable) redeem all, and not some only, of the Bonds at an Early Redemption Amount on the redemption date if (i) the Company has or will become obliged to pay additional amounts as referred to in the Conditions as a result of any change in, or amendment to, the laws or regulations of Singapore or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 14 December 2006, and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional amounts were a payment in respect of the Bonds then due.
- (c) **Redemption at the Option of the Bondholders.** The Company will, at the option of the holder of any Bond, redeem all or some of the holder's Bonds on 14 December 2009, at the outstanding principal amount plus redemption interest of 17.3 per cent. of the outstanding principal amount.
- (d) **Redemption for Delisting or Change of Control or Merger.** Following the occurrence of a Relevant Event (as defined in the Conditions), the holder of each Bond shall have the right at such holder's option, to require the Company to redeem all or some only of that holder's Bonds on the Relevant Event Redemption Date (as defined in the Conditions) at the Early Redemption Amount.

Cash Settlement

Notwithstanding the Conversion Right (as defined in the Conditions) of each bondholder in respect of each Bond, at any time when the delivery of Conversion Shares is required to satisfy the Conversion Right in respect of a conversion notice, the Company shall have the option to pay to the relevant bondholder an amount of cash in Singapore dollars equal to the Cash Settlement Amount (as defined in the Conditions) in order to satisfy such Conversion Right in full or in part (in which case the other part shall be satisfied by the delivery of Shares).

Rights of the Bondholders on Insolvency of the Company or any of its subsidiary

If the Company or any of its subsidiaries, *inter alia*, is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, then any Bondholder may, by notice in writing given to the Principal Agent (as defined in the Conditions) at its specified office by the holder of such Bond, be declared immediately due and payable whereupon it shall become immediately due and payable at its Early Redemption Amount without further formality.

Other events of default in respect of the Bonds are stated in the Conditions.

Transfer of Bonds

Subject to the Agency Agreement (as defined in the Conditions), a Bond may be transferred by delivery of the certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of the registrar or any of the agents. No transfer of a Bond will be valid unless and until entered on the Register (as defined in the Conditions).

Transfers of interests in the Bonds evidenced by a global certificate will be effected in accordance with the rules of the relevant clearing systems.

Status of the Bonds and Conversion Shares

The Bonds constitute direct, unsubordinated, unsecured and unconditional obligations of the Company. The Bonds shall at all times rank *pari passu* and without any preference or priority among themselves and with all other present and future unconditional, unsecured and unsubordinated obligations of the Company. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by applicable legislation and law and subject to the Conditions, at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

The Conversion Shares issued upon conversion of the Bonds will in all respects rank *pari passu* with the Company's ordinary shares in issue on the date the holder of the Conversion Shares is registered as the holder of record of the number of shares issuable upon conversion (the "**Registration Date**"). Save as set out in the Conditions, a holder of the Conversion Shares shall not be entitled to any rights the record date for which precedes the relevant Registration Date.

Governing Law

The Bonds are governed by, and shall be construed in accordance with, the laws of Singapore.

Financial Effects of the Issue

Solely for the purposes of illustration only and assuming (i) the Bonds are issued as at the beginning of the financial year ended 31 December 2005 and/or (ii) the full conversion of the Bonds into Conversion Shares at the Conversion Price during the financial year ended 31 December 2005, the illustration below sets out the proforma financial effects of the proposed issue of the Bonds and the Conversion Shares on the Company's share capital, net asset value per share and gearing.

Share Capital

| | As at 31 December 2005 | After issuance of the Bonds but before any conversion | After full conversion into Conversion Shares |
|-----------------------------------|-----------------------------------|--|---|
| Issued share capital (S\$'000) | 9,236 | 9,236 | 10,516 |
| Total number of issued shares | 461,780,000 | 461,780,000 | 525,780,000 |

Net Asset Value ("NAV") of the Group

| | As at 31 December 2005 | After issuance of the Bonds but before any conversion | After full conversion into Conversion Shares |
|---------------------|-----------------------------------|--|---|
| NAV (S\$'000) | 145,866 | 145,866 | 223,566 |
| NAV per share (S\$) | 0.32 | 0.32 | 0.425 |

Gearing of the Group

| | As at 31 December 2005 | After issuance of the Bonds but before any conversion | After full conversion into Conversion Shares |
|----------------------------------|-----------------------------------|--|---|
| Total Borrowings (S\$'000) | 6,180 | 86,180 | 6,180 |
| Shareholders' Funds (S\$'000) | 145,866 | 145,866 | 223,566 |
| Gearing ratio | 4.24% | 59.08% | 2.76% |

For the purpose of the above Gearing calculation, "**Gearing**" means the ratio for "**Total Borrowings**" to "**Shareholders' Funds**", and "**Total Borrowings**" means the aggregate borrowings from banks and financial institutions and other loans.

Stock Loan Agreement

Dr Lan Weiguang, the Managing Director of the Company, will enter into a stock loan agreement with an affiliate of the Initial Purchaser under which Dr Lan will lend to the affiliate of the Initial Purchaser up to 40,000,000 Shares, from time to time, until 14 December 2009 or the date on which the Bonds are redeemed, converted, purchased or cancelled in full, whichever is the earlier.

Lock-up Agreement

On the date of the Purchase Agreement, Dr Lan Weiguang and Chen Ni, an executive director of the Company, shall each respectively enter into a lock-up agreement with the Initial Purchaser under which each of them shall undertake, *inter alia*, not to sell any shares of the Company or enter into other transactions with a similar effect, without the consent of the Initial Purchaser, for a period from the date of the Purchase Agreement until the date falling 90 days after the Closing Date.

On the date of the Purchase Agreement, the Company shall undertake to the Initial Purchaser that neither it nor any of its subsidiaries or affiliates over which it exercises management or voting control, nor any person acting on its or their behalf will, for a period from the date of the Purchase Agreement up to 90 days after the Closing Date, without the prior written consent of the Initial Purchaser, *inter alia*, issue, sell, pledge or otherwise dispose of, *inter alia*, any Shares or securities convertible or exchangeable into or exercisable for Shares save for, *inter alia*, Shares issued pursuant to the conversion provisions of the Bonds.

Interest of Directors or Controlling Shareholders

Save for Dr Lan Weiguang, none of the Directors or substantial shareholders of the Company has any interest, direct or indirect, in the proposed issue of the Bonds, Conversion Shares or the subscribers of the Bonds.

Submitted by
Dr Lan Weiguang
Managing Director
16 November 2006

This announcement is not an offer of securities for sale in the United States or in Singapore. Securities may not be sold in the United States unless they are registered or are exempt from registration. The Company does not intend to register any portion of this offering in the United States, in Singapore or elsewhere or to conduct a public offering in the United States or in Singapore.

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