

Sinomem invests in China's biggest sorbitol manufacturer to expand its membrane-based downstream business

Sinomem Technology Ltd ("Sinomem" or "the company"), a leading membrane-based process and engineering technology company, is pleased to announce that it has entered into an agreement ("the Agreement") with Shandong Lianmeng Chemical Group Co Ltd ("SLCG"), Shandong Lianmeng Chemical Co Ltd ("SLCC"), and Shandong Lianmeng Phosphate & Compound Co Ltd ("SLPC"), the three existing shareholders of Shandong Tianli Biochemical Co Ltd ("STBC") to take a 30% stake in STBC through the subscription of new shares.

STBC is the biggest sorbitol manufacturer in China with a capacity of 160,000 tonne/year. Sorbitol is a type of sugar alcohol that the body metabolises slowly. It has properties such as good taste and reduced calories and is widely used as an artificial sweetener in diet foods.

Under the agreement, Sinomem will inject S\$10 million, which will be financed by the proceeds from its recent new share placement, into STBC and own 30% of the enlarged capital of STBC. After the capital injection, SLPC, SLCG and SLCC will own 42%, 14% and 14% of STBC respectively. The injected funds will be used to upgrade STBC's facilities to expand into high-margin, high-end products manufacturing, and to improve quality and lower production cost by adopting Sinomem's proprietary membrane-based process and engineering technology. The agreement provides, among other things, that SLCG, SLCC and SLPC will jointly guarantee STBC's profit before tax (PBT) to be not less than RMB 40 million for 2005 and not less than RMB 50 million for 2006 respectively. STBC's longer term profitability is expected to be further

improved after the company completes the planned products and technologies improvement projects in the later part of 2006.

Dr Lan Wei Guang, the founder and Managing Director of Sinomem said, "STBC has the ambition to become the largest sorbitol and integrated sugar alcohols (polyol) producer in the world. We are optimistic that the combination of Sinomem's membrane-based technology as well as its polyol product know-how with STBC's well established advantages in management and access to low cost raw materials will enable STBC to continuously gain market share in the global market "

Sinomem ventures into this huge polyol product market as part of our membrane-based downstream strategies after careful assessment of the combined advantages of both sides. Under the leadership of Dr Lan and Dr Jake Li (CTO of the company), Sinomem's research and development team has developed a set of advanced membrane-based manufacturing technologies which cover full range of products in the polyol family, including maltitol, mannitol, xylitol, and so forth. Pilot testing of our technologies has yielded very good results in terms of manufacturing cost and product quality. Potential customers from the global market are very satisfied with our prototype products. Sinomem and STBC have also signed a separate agreement, under which these newly developed technologies for polyol production will be licensed to STBC and STBC will pay Sinomem licensing/royalty fees varying from 15 to 20% of operating profit based on the product type and know-how in processes involved.

Mr Yang Zhiqiang, Chief Executive Officer of SLCG said, "Membrane technology is an advanced separation and purification and cleaner production method, and will be widely used in SLCG as well as STBC to increase production yield, improve quality, reduce energy and raw material consumption as well as minimize waste discharges. We are pleased to partner with Sinomem as they have established a solid track record in reducing manufacturing cost and improving product quality through the use of membrane-based process and engineering technology. Moreover, we are confident that our collaboration will enable our group to have a bigger edge over our competitors and to capture a larger share of the global market."

Assuming that the acquisition was completed as at the beginning of FY 2004, the investment in STBC would have increased Sinomem's EPS for FY2004 by 0.28 cents from 5.36 cents to 5.64 cents. Similarly, the NTA as at December 31 2004 would have been 20.83 cents instead of 20.55 cents.

This investment is expected to have a positive impact on the company's earnings per share or net tangible asset for the current financial year. None of the directors or substantial shareholders of the Company has any interests, direct or indirect in the transaction.

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About Sinomem Technology Limited

Sinomem Technology Limited (Bloomberg - SINO SP; Reuters – SINO.SI) was incorporated on 18 September 2002 under the laws of the Republic of Singapore, On 18 June, 2003, the company was listed on the mainboard of the Singapore Exchange Securities Trading Limited. The company and its subsidiaries provide integrated process and engineering solutions for separation, purification and cleaner production purposes for their customers in diverse industries through the use of its proprietary advanced membrane technology. This includes the upstream activities such as advanced membrane material production and downstream activities such as the production of biochemical products through membrane process and engineering technology.

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