

PAN ASIAN WATER SOLUTIONS LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration Number: 197902790N)

PROPOSED RENOUNCEABLE NON-UNDERWRITTEN RIGHTS ISSUE OF SHARES WITH WARRANTS

1. INTRODUCTION

The Board of Directors (the “**Directors**”) of Pan Asian Water Solutions Limited (the “**Company**”) wishes to announce that the Company is proposing a renounceable non-underwritten rights issue (“**Rights Issue**”) of:-

- (i) up to 62,500,000 new ordinary shares in the capital of the Company (the “**Rights Shares**”), at an issue price of S\$0.07 (“**Issue Price**”) for each Rights Share, on the basis of one (1) Rights Share for every two (2) existing ordinary shares (“**Shares**”) held by Entitled Shareholders (as defined below) as at a books closure date to be determined by the Directors (the “**Books Closure Date**”), fractional entitlements to be disregarded: and
- (ii) up to 62,500,000 free detachable warrants (“**Warrants**”), each Warrant carrying the right to subscribe for one (1) new ordinary share in the capital of the Company (“**New Shares**”) at an exercise price of S\$0.08 (“**Exercise Price**”) for each New Share, on the basis of one (1) Warrant for every one (1) Rights Shares subscribed for, fractional entitlements to be disregarded.

The Rights Issue is to be made pursuant to the general share issue mandate obtained from shareholders of the Company (“**Shareholders**”) at the Company’s Annual General Meeting held on 22 April 2010 (“**Share Issue Mandate**”).

The Company has appointed its continuing sponsor, Collins Stewart Pte. Limited, as the manager for the Rights Issue.

2. TERMS OF THE RIGHTS ISSUE

(a) Rights Shares

The Rights Issue is proposed to be made on a renounceable basis to the Shareholders whose registered addresses with the Company or The Central Depository (Pte) Limited (“**CDP**”), as the case may be, are in Singapore as at the Books Closure Date, or who have, at least five market days prior to the Books Closure Date, provided to the Company or CDP, as the case may be, addresses in Singapore for the service of notices and documents (“**Entitled Shareholders**”).

Fractional entitlements to the Rights Shares with Warrants will be disregarded and will be aggregated and allotted to satisfy excess applications (if any), or disposed of or otherwise dealt with in such manner as the Directors may, in their absolute discretion, deem fit.

The Issue Price of S\$0.07 for each Rights Share represents a discount of approximately 41.7% to the last transacted price of S\$0.12 per Share on the SGX Catalyst on 12 October 2010, being the last trading day of the Shares on the SGX Catalyst prior to the date of release of this announcement.

The Rights Shares will be payable in full upon acceptance and application, and when allotted and issued, will rank *pari passu* in all respects with the then existing issued Shares, save for

any dividends, rights, allotments or other distributions, the record date for which falls before the date of issue of the Rights Shares.

For practical reasons and in order to avoid any violation of securities legislation in countries other than Singapore, the Rights Shares with Warrants will not be offered to Shareholders with registered addresses outside Singapore as at the Books Closure Date and who have not, at least five market days prior thereto, provided to the Company or CDP, as the case may be, addresses in Singapore for the service of notices and documents ("**Foreign Shareholders**"). If it is practicable to do so, arrangements may, at the discretion of the Company, be made for the provisional allotments of Rights Shares with Warrants which would otherwise have been provisionally allotted to Foreign Shareholders to be sold "nil paid" on the SGX Catalist as soon as practicable after dealings in the provisional allotments of Rights Shares with Warrants commence and the net proceeds arising therefrom will be dealt with in accordance with the terms set out in the offer information statement ("**Offer Information Statement**") to be issued by the Company in connection with the Rights Issue.

Entitled Shareholders will be at liberty to accept, decline or otherwise renounce or trade their provisional allotments of Rights Shares with Warrants and will be eligible to apply for additional Rights Shares with Warrants in excess of their provisional allotments under the Rights Issue.

(b) Warrants

The Warrants, to be issued free with the Rights Shares subscribed for, will be in registered form and constituted by a deed poll setting out the terms and conditions of the Warrants (the "**Deed Poll**"). Each Warrant will, subject to the terms and conditions in the Deed Poll, carry the right to subscribe for one New Share at the Exercise Price of S\$0.08 at any time during the exercise period commencing on and including the date of issue of the Warrants and expiring at 5.00 p.m. on the date immediately preceding the 2nd anniversary of the date of issue of the Warrants unless such date is a date on which the Register of Members and/or the Register of Warranholders of the Company is closed or is not a market day, in which event the exercise period shall expire on the date prior to the closure of the Register of Members and/or the Register of Warranholders of the Company or the immediately preceding market day, as the case may be, but excluding such period(s) during which the Register of Warranholders may be closed ("**Exercise Period**"). Any Warrant remaining unexercised at the end of the Exercise Period shall lapse and cease to be valid for all purposes.

Only Shareholders who have subscribed for their entitlements to the Rights Shares and/or have been allotted any excess Rights Shares are entitled to the free Warrants. The Warrants will be in detached form from the Rights Shares and will be listed and traded separately on the SGX Catalist under the book-entry (scripless) settlement system upon the receipt of a listing and quotation notice from the Singapore Exchange Securities Trading Limited ("**SGX-ST**"). The listing and quotation of the Warrants on the SGX Catalist will be subject to there being a sufficient spread of holdings for the Warrants to provide for an orderly market for the Warrants. Each board lot of the Warrants will consist of 1,000 Warrants or such other board lot size which the SGX-ST may require and as may be notified by the Company.

The New Shares arising from the exercise of Warrants will rank *pari passu* in all respects with the then existing issued Shares, save for any dividends, rights, allotments or other distributions, the record date of which falls before the exercise date of the Warrants, save as may be otherwise provided in the Deed Poll. The Exercise Price and the number of Warrants will be subject to adjustments under certain circumstances to be provided for in the Deed Poll.

As at the date of this announcement, the Company has 125,000,000 Shares in issue. Based on the foregoing, a maximum of 62,500,000 Rights Shares with 62,500,000 Warrants will be issued pursuant to the Rights Issue.

The terms and conditions of the Rights Issue are subject to such changes as the Directors, after consultation with the Manager, may deem fit. The final terms and conditions of the

Rights Issue will be contained in the Offer Information Statement to be despatched by the Company to Entitled Shareholders in due course.

3. UNDERTAKING OF SHAREHOLDER

As at the date of this announcement, Xu Jia Zu Holdings Pte. Ltd. (the “**Undertaking Shareholder**”) owns 93,750,000 Shares, representing approximately 75.0% of the total number of issued Shares.

To show its support for the proposed Rights Issue and to demonstrate its commitment to and confidence in the prospects of the Company and its subsidiaries (“**Group**”), the Undertaking Shareholder has unconditionally and irrevocably undertaken to the Company to subscribe and pay for and/or procure subscription and payment for in accordance with the terms of the Rights Issue, at the Issue Price, its provisional allotment of Rights Shares with Warrants. In addition, the Undertaking Shareholder has unconditionally and irrevocably undertaken to subscribe and pay for and/or procure subscription and payment for the balance of any Rights Shares with Warrants which remain unsubscribed at the close of the Rights Issue after satisfying all applications and excess applications (if any) for the Rights Shares with Warrants.

In view of the above irrevocable undertaking by the Undertaking Shareholder, the Company has decided to proceed with the Rights Issue on a non-underwritten basis.

The obligations of the Undertaking Shareholder above are subject to and conditional upon the approval in-principle having been granted by the SGX-ST (and such approval not having been withdrawn or revoked on or prior to the closing date of the Rights Issue) for the listing and quotation of the Rights Shares on the SGX-Catalist and, if such approval is granted subject to conditions, such conditions being acceptable to the Company.

4. PURPOSE OF THE RIGHTS ISSUE AND THE USE OF PROCEEDS

The purpose of the Rights Issue is to allow the Company to raise net proceeds of up to approximately S\$4.2 million, after deducting estimated expenses of approximately S\$175,000.

The Company intends to utilise the net proceeds as follows:-

- (a) approximately S\$3.0 million to partially finance the company’s investment in Pan Asian Manufacturing (Tianjin) Co. Ltd; and
- (b) approximately S\$1.2 million for general working capital purposes. The Company would be tendering for several projects in the following financial year, and it is envisaged that the working capital requirements would increase.

Assuming that all 62,500,000 Warrants are exercised, the gross proceeds arising therefrom will amount to approximately S\$5.0 million. As and when the Warrants are exercised, the proceeds arising therefrom may, at the discretion of the Directors, be applied towards expansion of the Group’s business through investments, acquisitions, joint ventures or strategic alliances, working capital and/or such other purposes at the Directors may deem fit.

The Company will make periodic announcements on the utilisation of the proceeds from the Rights Issue and from the exercise of the Warrants when such proceeds are materially disbursed and will provide a status report on the use of such proceeds in the Company’s annual report.

Pending the deployment of the proceeds for the purposes mentioned above, such proceeds may be deposited with banks and/or financial institutions, invested in short-term money markets and/or marketable securities, or used for any other purpose on a short-term basis, as the Directors may deem fit.

5. DIRECTORS' OPINION

The Directors are of the opinion that, after taking into consideration the Group's present bank facilities and the net proceeds of the Rights Issue, the working capital available to the Group is sufficient to meet its present requirements. The Directors are of the view that the Rights Issue would help further strengthen the Group's financial position.

6. APPROVALS

The Rights Issue is subject to, *inter alia*, the following:

- (a) the submission by the Sponsor to the SGX-ST of the confirmations required in Appendix 8B of Section B: the Rules of Catalist of the Listing Manual of the SGX-ST;
- (b) the receipt of a listing and quotation notice from the SGX-ST for the dealing in, listing of and quotation for the Rights Shares, the Warrants and the New Shares on the SGX Catalist; and
- (c) the lodgement of the Offer Information Statement with the SGX-ST, acting as agent on behalf of the Monetary Authority of Singapore.

7. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

None of the Directors (other than in his capacity as director or shareholder of the Company) or substantial shareholder of the Company has any interest, direct or indirect, in the proposed Rights Issue.

8. RESPONSIBILITY STATEMENT

The Directors (including any Director who may have delegated detailed supervision of the preparation of this announcement) have taken all reasonable care to ensure that the facts stated in this announcement are fair and accurate and that no material facts have been omitted from this announcement, and they jointly and severally accept responsibility accordingly.

BY ORDER OF THE BOARD

Richard Koh Chye Heng
Executive Chairman
22 October 2010

This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, Collins Stewart Pte. Limited for compliance with the relevant rules of the SGX-ST. Collins Stewart Pte. Limited has not independently verified the contents of this announcement. This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr Alex Tan, Managing Director, Corporate Finance, Collins Stewart Pte. Limited at 77 Robinson Road #21-02 Singapore 068896, telephone (65) 6854 6160.