

PAN ASIAN WATER SOLUTIONS LTD

(Incorporated in Singapore)
(Registration No. 197902790N)

PROPOSED DISPOSAL OF ENTIRE 51.0% SHAREHOLDINGS IN TEACLY (S) PTE. LTD. (CO.NO. 198202210Z)

1. INTRODUCTION

The Board of Directors (the “**Board**”) of Pan Asian Water Solutions Ltd. (the “**Company**”) wishes to announce that it has on 21 May 2009 entered into a Shares Sales and Purchase Agreement (“**SPA**”) as vendor with Koh Tiam Teng (NRIC No. S1128731Z) (the “**Purchaser**”) as purchaser whereby the Company shall dispose of its entire 51.0% shareholdings in Teacly (S) Pte. Ltd. (“**Teacly**”) for a cash consideration of S\$784,336.65 (the “**Proposed Disposal**”).

2. INFORMATION ON TEACLY AND RATIONALE FOR THE PROPOSED DISPOSAL

Teacly was incorporated in Singapore on 26th May 1982 as a private company limited by shares. It has a current paid-up capital of S\$2,110,000 divided into 3,408,000 ordinary shares. The Company had acquired its 51.0% interest in Teacly on 16 June 2007 for a consideration of S\$440,000.00.

Teacly’s principal activity is that of sewer pipe renovation, relining and rehabilitation works and other similar business ancillary thereto, which does not and shall not include any business similar to those carried on by the Company (“**Teacly Business**”).

The rationale for the Proposed Disposal are as follows:-

- (a) The Company wishes to concentrate on pipe distribution and trading business. Teacly’s contracting business nature is not part of the Group’s core businesses with Teacly Business accounting for 7.9% of the Group’s net profits before tax and minority interest in FY2008;
- (b) The management of the Company does not have the expertise in managing a contracting business and had to rely on the experience and expertise of its joint venture partner, especially after the intended resignation of the Purchaser from the Company
- (c) Teacly’s contracting business involves high fixed operating overheads and;
- (d) Teacly’s business is in a highly competitive segment where the number of competitors has increased substantially over the past one year.

3. DETAILS OF THE PROPOSED DISPOSAL

3.1 The Consideration

The consideration for the Proposed Disposal (the “**Consideration**”) is S\$784,336.65, based on the audited book value of the assets of the Company as at 31 December 2008.

The Consideration shall be paid by the Purchaser to the Company in the following manner:-

- (a) the sum of S\$7,843.37 shall be paid upon execution of the SPA;
- (b) the balance sum of S\$776,493.28 (“**Balance Purchase Price**”) shall be paid on or before the completion date which shall take place on 28 May 2009 or such other date as the parties may agree to.

3.2 Conditions Precedent

The Proposed Disposal is subject to, *inter alia*, the following:-

- (a) The Purchaser shall procure and cause Teacly to pay or alternatively, The Purchaser shall pay on behalf of Teacly the outstanding shareholder’s loans together with all accrued interest owing by Teacly to the Company, amounting to not less than S\$1,950,000; and
- (b) The Purchaser procuring confirmation in writing from the other existing shareholder of Teacly that it consents to the sale of the Sale Shares by the Company to him and agree to waive any pre-emption rights that it may have in or over the Sale Shares.

3.3 Other Salient Terms

- (a) Upon completion of the SPA (“**Completion**”), the Purchaser will guarantee the payment of all obligations and liabilities of the Company in connection with (i) the Guarantee issued by the Company (“**Guarantee**”) in favour of Malayan Banking Berhad (“Maybank”) to secure the banking facilities granted by Maybank to Teacly (“Maybank Facilities”); (ii) the Maybank Facilities; and (iii) all other liabilities and obligations of Teacly, as of 1 January 2009. Subject to Completion, the Purchaser agrees to indemnify the Company against any damages, losses, costs, liabilities and expenses that may be incurred or suffered by the Company arising from any matter relating to Teacly on or after 1 January 2009, including but not limited to any losses, damages, costs, liabilities or expenses that may be suffered or incurred by the Company arising from or by reason of any claims, demands or proceedings that may be made by Maybank against the Company in connection with Teacly’s liabilities to Maybank, whether pursuant to the terms of the Guarantee or otherwise.
- (b) The Purchaser shall cease to be in the employment of the Company and resign from all positions in the Company (including but not limited to the positions of Director, Managing Director and Chief Executive Officer of the Company), with effect from 29 May 2009 (“**Cessation Date**”). The Purchaser’s letter of resignation is to be delivered on the Completion Date. However, the Purchaser shall continue to be bound by the provisions of the Service Agreement dated 9 July 2004 entered into

between the Company and the Purchaser, which are expressly intended to survive the cessation of the Purchaser's employment with the Company. In particular but not limiting the generality thereof, clauses 14 and 15 of the said Service Agreement prohibiting the Purchaser from competing with the business of the Company or soliciting employees of the Company, shall continue to be binding on the Purchaser., provided always that (i) the Purchaser shall be at liberty to carry on the Teacly Business (as defined above) presently carried out by Teacly so long as such Teacly Business does not and shall not include the business carried on by the Company as at the date of the SPA and (ii) the restrictions imposed shall not extend beyond 12 months from the Cessation Date.

- (c) The Purchaser undertakes to and warrants that he shall, within three (3) months from the Completion Date, procure the release and discharge of the Company from all corporate guarantees and other security ("**Security**") that may have been granted and/or provided by the Company to third parties ("**Teacly's Chargees**") to secure Teacly's debts, liabilities and obligations, including but not limited to the Guarantee. Within that three (3) month period, the Purchaser shall procure and deliver to the Company written confirmation from each of Teacly's Chargees that each of them agrees (i) to release the relevant Security as collateral or security for the debts, liabilities and obligations of Teacly, or substitute the said Security with some other form of collateral or security to be provided by the Purchaser and/or Teacly and (ii) that Teacly's Chargees shall discharge and release the Company from all its obligations and liabilities under each of the Security.

4. THE PROPOSED DISPOSAL AS AN INTERESTED PERSON TRANSACTION

The Company is an "entity at risk" while the Purchaser is an "interested person" as defined under Chapter 9 of the Catalist Listing Manual in view of the following:-

- (a) the Purchaser is the Chief Executive Officer and Managing Director of the Company as well as a Director of Teacly;
- (b) the Purchaser holds 40% of the total issued shares of the Company's Controlling Shareholder, Xu Jia Zu Holdings Pte Ltd., which in turn control 80% of the Company; and
- (c) the Purchaser is the brother of the Company's Executive Chairman, Mr Richard Koh Chye Heng and the uncle of the Company's Non-Executive Director, Mr Koh Eddie.

Accordingly, the Proposed Disposal constitutes an "interested person transaction" for the purposes of Chapter 9 of the Catalist Listing Manual. As the value of the Proposed Disposal amounts to approximately 4.6% of the Group's latest audited net tangible asset value as at 31 December 2008, which is more than the threshold requirement under Rule 905(1) but less than that under Rule 906(1) of the Catalist Listing Manual, the Proposed Disposal is not subject to Shareholders' approval.

The Audit Committee of the Company is of the view that the Proposed Disposal is on normal commercial terms and is not prejudicial to the interests of the Company and its minority Shareholders.

5. THE PROPOSED DISPOSAL AS A DISCLOSEABLE TRANSACTION

Based on the audited financial statements of the Group for the financial year ended 31 December 2008, the relative figures for the Proposed Disposal computed using the bases set out in Rule 1006 of the Catalist Listing Manual are as follows:-

Rule 1006	Bases	Relative Figures
(a)	Net asset value of the assets to be disposed of, compared with the Group's net asset value	4.6%
(b)	Net profits before tax and minority interest attributable to the assets to be disposed of, compared with the Group's net profits	7.9%
(c)	Aggregate value of the consideration to be received, compared with the Company's market capitalization based on the total number of issued shares excluding treasury shares	7.0%
(d)	Number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable to a disposal of assets

Accordingly, the Proposed Disposal constitutes a Discloseable Transaction for the purposes of Chapter 10 of the Catalist Listing Manual.

6. FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

The net profits before tax and minority interest attributable to the Company's 51.0% shareholdings in Teacly is approximately S\$281,000 for the financial year ended 31 December 2008. There is neither any gain nor loss as the consideration for the Proposed Disposal is based on the net asset value of the assets to be disposed of as at 31 December 2008. The net proceeds from the Proposed Disposal are intended for the Company's general working capital.

The financial effects of the Proposed Disposal on the Group as set out below were prepared based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2008 and subject to the following main assumptions:-

- (i) For the purpose of computing the net tangible asset ("**NTA**") of the Group after the Proposed Disposal, it is assumed that the Proposed Disposal had been completed by 31 December 2008.
- (ii) For the purpose of computing the earnings and basic earnings per share ("**EPS**") of the Group after the Proposed Disposal, it is assumed that the Proposed Disposal was effected on 1 January 2008.
- (iii) The analysis does not take into account any expenses related to the Proposed Disposal.

Please note that the financial effects are for illustrative purposes only and are not necessarily indicative of the results of the Group had the Proposed Disposal taken place in accordance with the aforementioned main assumptions.

6.1 NTA

	Before the Proposed Disposal	After the Proposed Disposal
Consolidated NTA attributable to Shareholders of the Company (S\$'000)	16,903	16,903
Weighted average number of shares	125,000,000	125,000,000
Consolidated NTA per share attributable to Shareholders of the Company (cents)	13.52	13.52

6.2 EPS

	Before the Proposed Disposal	After the Proposed Disposal
Consolidated profit after taxation and minority interests (S\$'000)	2,661	2,424
Weighted average number of shares	125,000,000	125,000,000
Consolidated EPS (Cents)	2.13	1.94

7. ALL INTERESTED PERSON TRANSACTIONS IN THE CURRENT FINANCIAL YEAR

In addition to the Proposed Disposal, there are trade-related interested person transactions with Richard Koh Chye Heng which amounted to S\$880,000 in the current financial year and are covered under the Company's existing shareholders' mandate.

8. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Please see details set out under section 4 above.

9. MISCELLANEOUS

A copy of the Shares Sale and Purchase Agreement is available for inspection during normal business hours at the Company's registered office for three (3) months from the date of this announcement.

By Order of the Board
PAN ASIAN WATER SOLUTIONS LTD

Richard Koh Chye Heng
Executive Chairman

21st May 2009