

ASIA WATER TECHNOLOGY LTD.

("the Company")

(Incorporated in Singapore)

(Company registration number: 200210042R)

BOND SUBSCRIPTION AGREEMENT DATED 8 AUGUST 2007 ("BSA") BETWEEN THE COMPANY AS THE ISSUER, THE SUBSCRIBERS AND CLSA MEZZANINE MANAGEMENT LIMITED AS ARRANGER AND AGENT

(A) DELAY IN COMPLETION OF QUALIFIED RESTRUCTURING

(B) NOTIFICATION OF CANCELLATION OF SERIES 2 SENIOR BONDS AND JUNIOR BONDS OF AN AGGREGATE AMOUNT OF US\$30,000,000 BY THE AGENT

Unless otherwise specified herein or the context otherwise requires, any term used in this announcement which is defined or construed in the Company's circular to its shareholders dated 9 November 2007 shall have the same meaning given therein.

The Board of Directors of the Company would like to announce as follows:-

Delay in Qualified Restructuring

Under the terms of the BSA, the Company was required to complete the Qualified Restructuring by 7 August 2008 or before Series 2 Subscription Date, whichever is earlier ("the QR Deadline"). The Company has been following up and monitoring the completion of the Qualified Restructuring since the execution of the BSA.

The Company had on 7 August 2008 made a written request to the Agent ("the Waiver Request Letter") for a waiver of the Company's undertakings to complete the Qualified Restructuring by the QR Deadline and for an extension of the QR Deadline in relation to two tasks relating to the Qualified Restructuring, namely (i) the transfer of 80% of its equity interest in Taizhou Kaidi Waste Water Treatment Co., Ltd. to the Company or Asia Water Investment Pte Ltd; and (ii) obtaining the property ownership certificate and other necessary governmental consents in connection with the plant of Wuhan Hanxi Waste Water Treatment Co., Ltd ("the Two QR Tasks"). The Group encountered a delay in the Two QR Tasks due to pending approvals from the relevant PRC authorities.

Notification by the Agent

On 12 August 2008, the Agent notified the Company in writing ("the Notification Letter") that in view of the delay in the completion of the Two QR Tasks by the stipulated date in the BSA:-

- (a) the Bondholders do not consent to the waivers and consents requested in the Waiver Request Letter;
- (b) an Event of Default under the BSA has occurred and is continuing under the BSA;
- (c) the Company shall pay a penalty interest rate of 2% above the applicable interest rates of the Series 1 Senior Bonds and Junior Bonds (due to the non-completion of the Qualified Restructuring) from 8 August 2008 until the Qualified Restructuring is so completed; and

- (d) the Finance Parties have decided to exercise their rights under the BSA to cancel the Series 2 Senior Bonds and Junior Bonds and the Company is therefore required to pay a cancellation fee amounting to 2% of US\$30,000,000 to the Agent to the account of the Bondholders on the Series 2 Long-Stop Date being 7 October 2008.

The Agent further notified that they will observe a standstill period whereby they will not terminate the BSA or make a demand on the Company for the amounts outstanding from time to time under the BSA from 12 August 2008 until further notice from the Agent ("the Standstill Period"), as a result of the abovementioned Event of Default, subject to certain conditions and restrictions imposed on the Company. Material Standstill Period conditions are set out as follows:

- (1) the Group should not: (A) proceed with any further investments in any Build-Operate-Transfer ("BOT")/Transfer-Operate-Transfer ("TOT")/Build-Own-Operate ("BOO") projects or any further capital expenditure of certain companies within the Group; (B) draw down on any further project loan; and (C) execute any BOT/TOT/BOO related EPC contract in relation thereto;
- (2) the Group should ensure that all cash balances available as of 11 August 2008 of certain companies within the Group to be deposited with Agent's designated bank accounts in PRC within three (3) Business Days from 12 August 2008 and that any withdrawal from such accounts shall be subject to prior approval from the Agent; and
- (3) the Group shall provide additional information on the Group's business as requested by the Agent within seven (7) Business Days from 12 August 2008.

The Agent has also notified that after the expiry of the Standstill Period, the Finance Parties may enforce their rights and remedies under the BSA to their fullest extent.

The above conditions are expected to have an impact on the cash flow and profitability of the Company during the Standstill Period. Going forward, the Company intends to complete the Two QR Tasks and fulfill the Standstill Period conditions stipulated by the Agent in the Notification Letter as soon as possible and will update its shareholders on any developments in relation to the above via periodic announcements.

BY ORDER OF THE BOARD

Tan Kim Han, Raymond
Financial Controller/Company Secretary
14 August 2008