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Confirmation of Your Representation: In order to be eligible to view the attached information memorandum or make an investment decision with respect to the notes, investors must not be a U.S. person (within the meaning of Regulation S under the Securities Act (as defined below)). The attached information memorandum is being sent at your request and by accepting the e-mail and accessing the attached information memorandum, you shall be deemed to have represented to us that (1) you are not resident in the United States nor a U.S. Person, as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) nor are you acting on behalf of a U.S. Person, the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the U.S. and, to the extent you purchase the notes described in the attached information memorandum, you will be doing so pursuant to Regulation S under the Securities Act, and (2) you consent to delivery of the attached information memorandum and any amendments or supplements thereto by electronic transmission.

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Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of Hyflux Ltd, DBS Bank Ltd. or Standard Chartered Bank to subscribe for or purchase any of the notes described therein, and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act).

The attached information memorandum or any materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the dealers or any affiliate of the dealers is a licensed broker or dealer in that jurisdiction, the offering

shall be deemed to be made by the dealers or such affiliate on behalf of Hyflux Ltd in such jurisdiction. The attached information memorandum may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

You are reminded that you have accessed the attached information memorandum on the basis that you are a person into whose possession this information memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. **If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the notes described therein.**

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You are responsible for protecting against viruses and other destructive items. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

**HYFLUX LTD**

(Incorporated in the Republic of Singapore on 31 March 2000)
(Company Registration No. 200002722Z)

S\$800,000,000
Multicurrency Debt Issuance Programme
(the "Programme")

This Information Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Information Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of notes (the "**Notes**") to be issued from time to time by Hyflux Ltd ("**Hyflux**" or the "**Issuer**") pursuant to the Programme may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or to any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law; or
- (4) as specified in Section 276(7) of the SFA.

Application has been made to the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for permission to deal in and quotation for any Notes which are agreed at the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer, its subsidiaries, its associated companies (if any), its joint venture companies (if any) or such Notes.

Arrangers



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NOTICE

DBS Bank Ltd. and Standard Chartered Bank (the “**Arrangers**”) have been authorised by the Issuer to arrange the Programme described herein. Under the Programme, the Issuer may, subject to compliance with all relevant laws, regulations and directives, from time to time issue Notes denominated in Singapore dollars and/or any other currencies.

This Information Memorandum contains information with regard to the Issuer, its subsidiaries, its associated companies (if any), its joint venture companies (if any) and the Notes. The Issuer, having made all reasonable enquiries, confirms that this Information Memorandum contains all information which is material in the context of the Programme and the issue and offering of the Notes, that the information contained herein is true and accurate in all respects, the opinions, expectations and intentions expressed in this Information Memorandum have been carefully considered, and that there are no other facts the omission of which in the context of the issue and offer of the Notes would or might make any such information or expressions of opinion, expectation or intention misleading in any respect.

Notes may be issued in series having one or more issue dates and the same maturity date, and on identical terms (including as to listing) except (in the case of Notes other than variable rate notes (as described under “Summary of the Programme”)) for the issue dates, issue prices and/or the dates of the first payment of interest, or (in the case of variable rate notes) for the issue prices and rates of interest. Each series may be issued in one or more tranches on the same or different issue dates. The Notes will be issued in bearer form and may be listed on a stock exchange. The Notes will initially be represented by either a temporary global note or a permanent global note which will be deposited on the issue date with either CDP (as defined herein) or a common depositary for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) or otherwise delivered as agreed between the Issuer and the relevant Dealer (as defined herein). Subject to compliance with all relevant laws, regulations and directives, the Notes may have maturities of such tenor as may be agreed between the Issuer and the relevant Dealer and may be subject to redemption or purchase in whole or in part. The Notes will bear interest at a fixed, floating, variable or hybrid rate or may not bear interest or may be such other notes as may be agreed between the Issuer and the relevant Dealer. The Notes will be repayable at par, at a specified amount above or below par or at an amount determined by reference to a formula, in each case with terms as specified in the Pricing Supplement (as defined herein) issued in relation to each series or tranche of Notes. Details applicable to each series or tranche of Notes will be specified in the applicable Pricing Supplement which is to be read in conjunction with this Information Memorandum.

The maximum aggregate principal amount of the Notes to be issued, when added to the aggregate principal amount of all Notes outstanding (as defined in the Trust Deed referred to below) shall be S\$800,000,000 (or its equivalent in any other currencies) or such increased amount in accordance with the terms of the Programme Agreement (as defined herein). On 13 July 2011, the maximum aggregate principal amount of the Notes to be issued, when added to the aggregate principal amount of all Notes outstanding, was increased from S\$300,000,000 to S\$800,000,000.

No person has been authorised to give any information or to make any representation other than those contained in this Information Memorandum and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, either of the Arrangers or any of the Dealers. Save as expressly stated in this Information Memorandum, nothing contained herein is, or may be relied upon as, a promise or representation as to the future performance or policies of the Issuer or any of its subsidiaries, associated companies (if any) or joint venture companies (if any). Neither this Information Memorandum nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Programme may be used for the purpose of, and does not constitute an offer of, or solicitation or invitation by or on behalf of the Issuer, either of the Arrangers or any of the Dealers to subscribe for or purchase, the Notes in any jurisdiction or under any circumstances in which such offer, solicitation or invitation is unlawful, or not authorised or to any person to whom it is unlawful to make such offer, solicitation or invitation. The distribution and publication of this Information Memorandum or any such other document or information and the offer of the Notes in certain jurisdictions may be restricted by law. Persons who distribute or publish this Information Memorandum or any such other document or information or into whose possession this Information Memorandum or any such other document or information comes are required to inform themselves about and to observe any such restrictions and all applicable laws, orders, rules and regulations.

The Notes have not been, and will not be, registered under the Securities Act (as defined herein) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons.

Neither this Information Memorandum nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Programme shall be deemed to constitute an offer of, or an invitation by or on behalf of the Issuer, either of the Arrangers or any of the Dealers to subscribe for or purchase, any of the Notes.

This Information Memorandum and any other documents or materials in relation to the issue, offering or sale of the Notes have been prepared solely for the purpose of the initial sale by the relevant Dealers of the Notes from time to time to be issued pursuant to the Programme. This Information Memorandum and such other documents or materials are made available to the recipients thereof solely on the basis that they are persons falling within the ambit of Section 274 and/or Section 275 of the SFA and may not be relied upon by any person other than persons to whom the Notes are sold or with whom they are placed by the relevant Dealers as aforesaid or for any other purpose. Recipients of this Information Memorandum shall not reissue, circulate or distribute this Information Memorandum or any part thereof in any manner whatsoever.

Neither the delivery of this Information Memorandum (or any part thereof) or the issue, offering, purchase or sale of the Notes shall, under any circumstances, constitute a representation, or give rise to any implication, that there has been no change in the prospects, results of operations or general affairs of the Issuer or any of its subsidiaries, associated companies (if any) or joint venture companies (if any) or in the information herein since the date hereof or the date on which this Information Memorandum has been most recently amended or supplemented.

The Arrangers and the Dealers have not separately verified the information contained in this Information Memorandum. None of the Arrangers, any of the Dealers or any of their respective officers or employees is making any representation or warranty expressed or implied as to the merits of the Notes or the subscription for, purchase or acquisition thereof, the creditworthiness or financial condition or otherwise of the Issuer or its subsidiaries, associated companies (if any) or joint venture companies (if any). Further, none of the Arrangers and the Dealers makes any representation or warranty as to the Issuer, its subsidiaries, associated companies (if any) or joint venture companies (if any) or as to the accuracy, reliability or completeness of the information set out herein (including the legal and regulatory requirements pertaining to Sections 274, 275 and 276 or any other provisions of the SFA) and the documents which are incorporated by reference in, and form part of, this Information Memorandum.

Neither this Information Memorandum nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Programme or the issue of the Notes is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, either of the Arrangers or any of the Dealers that any recipient of this Information Memorandum or such other document or information (or such part thereof) should subscribe for or purchase any of the Notes. A prospective purchaser shall make its own assessment of the foregoing and other relevant matters including the financial condition and affairs and the creditworthiness of the Issuer and its subsidiaries, associated companies (if any) and joint venture companies (if any), and obtain its own independent legal or other advice thereon, and its investment shall be deemed to be based on its own independent investigation of the financial condition and affairs and its appraisal of the creditworthiness of the Issuer. Accordingly, notwithstanding anything herein, none of the Issuer, either of the Arrangers, any of the Dealers or any of their respective officers, employees or agents shall be held responsible for any loss or damage suffered or incurred by the recipients of this Information Memorandum or such other document or information (or such part thereof) as a result of or arising from anything expressly or implicitly contained in or referred to in this Information Memorandum or such other document or information (or such part thereof) and the same shall not constitute a ground for rescission of any purchase or acquisition of any of the Notes by a recipient of this Information Memorandum or such other document or information (or such part thereof).

To the fullest extent permitted by law, neither of the Arrangers nor any of the Dealers accept any responsibility for the contents of this Information Memorandum or for any other statement made or purported to be made by either of the Arrangers or any of the Dealers or on its behalf in connection with

the Issuer or the issue and offering of the Notes. Each Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Information Memorandum or any such statement.

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated by reference in, and to form part of, this Information Memorandum: (1) any annual reports, audited consolidated accounts and/or unaudited financial statements of the Issuer and its subsidiaries, associated companies (if any) and joint venture companies (if any) and (2) any supplement or amendment to this Information Memorandum issued by the Issuer. This Information Memorandum is to be read in conjunction with all such documents which are incorporated by reference herein and, with respect to any series or tranche of Notes, any Pricing Supplement in respect of such series or tranche. Any statement contained in this Information Memorandum or in a document deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in this Information Memorandum or in such subsequent document that is also deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Memorandum. Copies of all documents deemed incorporated by reference herein are available for inspection at the specified office of the Issuing and Paying Agent (as defined herein).

Any purchase or acquisition of the Notes is in all respects conditional on the satisfaction of certain conditions set out in the Programme Agreement and the issue of the Notes by the Issuer pursuant to the Programme Agreement. Any offer, invitation to offer or agreement made in connection with the purchase or acquisition of the Notes or pursuant to this Information Memorandum shall (without any liability or responsibility on the part of the Issuer, either of the Arrangers or any of the Dealers) lapse and cease to have any effect if (for any other reason whatsoever) the Notes are not issued by the Issuer pursuant to the Programme Agreement.

Any discrepancies in the tables included herein between the listed amounts and totals thereof are due to rounding.

The attention of recipients of this Information Memorandum is drawn to the restrictions on resale of the Notes set out under "Subscription, Purchase and Distribution" on pages 82 and 83 of this Information Memorandum.

Any person(s) who is invited to purchase or subscribe for the Notes or to whom this Information Memorandum is sent shall not make any offer or sale, directly or indirectly, of any Notes or distribute or cause to be distributed any document or other material in connection therewith in any country or jurisdiction except in such manner and in such circumstances as will result in compliance with any applicable laws and regulations.

It is recommended that persons proposing to subscribe for or purchase any of the Notes consult their own legal and other advisers before purchasing or acquiring the Notes.

FORWARD-LOOKING STATEMENTS

All statements contained in this Information Memorandum that are not statements of historical fact constitute “forward-looking statements”. Some of these statements can be identified by forward-looking terms such as “expect”, “believe”, “plan”, “intend”, “estimate”, “anticipate”, “may”, “will”, “would” and “could” or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the expected financial position, business strategy, plans and prospects of the Issuer and/or the Group (as defined herein) (including statements as to the Issuer’s and/or the Group’s revenue and profitability, prospects, future plans and other matters discussed in this Information Memorandum regarding matters that are not historical facts and including the financial forecasts, profit projections, statements as to the expansion plans of the Issuer and/or the Group, expected growth in the Issuer and/or the Group and other related matters), if any, are forward-looking statements and accordingly, are only predictions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Issuer and/or the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, among others:

- changes in general political, social and economic conditions;
- changes in currency exchange and interest rates;
- demographic changes;
- changes in competitive conditions; and
- other factors beyond the control of the Issuer and the Group.

Some of these factors are discussed in greater detail in this Information Memorandum, in particular, but not limited to, discussion under the section “Investment Considerations”.

Given the risks and uncertainties that may cause the actual future results, performance or achievements of the Issuer or the Group to be materially different from the results, performance or achievements expected, expressed or implied by the financial forecasts, profit projections and forward-looking statements in this Information Memorandum, undue reliance must not be placed on those forecasts, projections and statements. The Issuer, the Arrangers and the Dealers do not represent or warrant that the actual future results, performance or achievements of the Issuer or the Group will be as discussed in those statements.

Neither the delivery of this Information Memorandum nor the issue of any Notes by the Issuer shall under any circumstances constitute a continuing representation or create any suggestion or implication that there has been no change in the affairs of the Issuer, the Group or any statement of fact or information contained in this Information Memorandum since the date of this Information Memorandum.

Further, the Issuer, the Arrangers and the Dealers disclaim any responsibility, and undertake no obligation, to update or revise any forward-looking statements contained herein to reflect any changes in the expectations with respect thereto after the date of this Information Memorandum or to reflect any change in events, conditions or circumstances on which any such statements are based.

DEFINITIONS

The following definitions have, where appropriate, been used in this Information Memorandum:

“Administrative Authority”	:	A governing body or agency of the PRC government at the county level, the district level or the provincial level.
“Agency Agreement”	:	The Agency Agreement dated 3 July 2008 between (1) the Issuer, as issuer, (2) the Issuing and Paying Agent, as issuing and paying agent, (3) the Agent Bank, as agent bank, and (4) the Trustee, as trustee, as amended, varied or supplemented from time to time.
“Agent Bank”	:	Standard Chartered Bank.
“Arrangers”	:	DBS Bank Ltd. and Standard Chartered Bank.
“Board”	:	Board of Directors of the Issuer.
“Business Day”	:	A day (other than Saturday or Sunday) on which commercial banks are open for business in Singapore.
“CDP”	:	The Central Depository (Pte) Limited.
“Companies Act”	:	The Companies Act, Chapter 50 of Singapore, as amended or modified from time to time.
“Couponholders”	:	The holders of the Coupons.
“Coupons”	:	The interest coupons appertaining to an interest bearing definitive Note.
“Dealers”	:	Persons appointed as dealers under the Programme.
“Directors”	:	The directors (including alternate directors, if any) of the Issuer as at the date of this Information Memorandum.
“FY”	:	Financial year ended or ending 31 December.
“Group”	:	The Issuer, its subsidiaries, associated companies and joint ventures.
“Hyflux” or “Issuer”	:	Hyflux Ltd.
“Issuing and Paying Agent”	:	Standard Chartered Bank.
“Latest Practicable Date”	:	7 July 2011.
“MAS”	:	The Monetary Authority of Singapore.
“Noteholders”	:	The holders of the Notes.
“Notes”	:	The notes to be issued by the Issuer under the Programme.
“Permanent Global Note”	:	A Global Note representing Notes of one or more Tranches of the same Series, either on issue or upon exchange of interests in a Temporary Global Note.
“PRC”	:	People’s Republic of China.

“Pricing Supplement”	:	In relation to a Tranche or Series, a pricing supplement, to be read in conjunction with this Information Memorandum, specifying the relevant issue details in relation to such Tranche or, as the case may be, Series.
“Programme”	:	The S\$800,000,000 Multicurrency Debt Issuance Programme of the Issuer.
“Programme Agreement”	:	The Programme Agreement dated 3 July 2008 made between (1) the Issuer, as issuer, (2) the Arrangers, as arrangers, and (3) DBS Bank Ltd. and Standard Chartered Bank, as dealers, as amended, varied or supplemented from time to time.
“Securities Act”	:	The United States Securities Act of 1933, as amended.
“Series”	:	(1) (in relation to Notes other than variable rate notes) a Tranche, together with any further Tranche or Tranches, which are (a) expressed to be consolidated and forming a single series and (b) identical in all respects (including as to listing) except for their respective issue dates, issue prices and/or dates of the first payment of interest and (2) (in relation to variable rate notes) Notes which are identical in all respects (including as to listing) except for their respective issue prices and rates of interest.
“SFA”	:	Securities and Futures Act, Chapter 289 of Singapore, as amended or modified from time to time.
“SGX-ST”	:	Singapore Exchange Securities Trading Limited.
“Temporary Global Note”	:	A Global Note representing Notes of one or more Tranches of the same Series on issue.
“Tranche”	:	Notes which are identical in all respects (including as to listing).
“Trust Deed”	:	The Trust Deed dated 3 July 2008 made between (1) the Issuer, as issuer, and (2) the Trustee, as trustee, as amended and supplemented by the Supplemental Trust Deed dated 13 July 2011 made between the same parties, and as further amended, varied or supplemented from time to time.
“Trustee”	:	DBS Trustee Limited.
“United States” or “U.S.”	:	United States of America.
“RMB”	:	The lawful currency of the PRC.
“S\$” and “cents”	:	Singapore dollars and cents respectively.
“US\$” or “US dollars”	:	United States dollars.
“%”	:	Per cent.
“m”	:	Metres.
“m³”	:	Cubic metres.
“m³/day”	:	Cubic metres per day.

Words importing the singular shall, where applicable, include the plural and *vice versa*, and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall, where applicable, include corporations. Any reference to a time of day in this Information Memorandum shall be a reference to Singapore time unless otherwise stated. Any reference in this Information Memorandum to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act or the SFA or any statutory modification thereof and used in this Information Memorandum shall, where applicable, have the meaning ascribed to it under the Companies Act or, as the case may be, the SFA.

CORPORATE INFORMATION

Board of Directors	:	Ms Olivia Lum Ooi Lin Mr Teo Kiang Kok Mr Lee Joo Hai Mr Gay Chee Cheong Mr Christopher Murugasu Mr Rajsekar Kuppuswami Mitta Mr Simon Tay Mr Gary Kee
Company Secretary	:	Ms Lim Poh Fong
Registered Office	:	202 Kallang Bahru Hyflux Building Singapore 339339
Auditors to the Issuer	:	KPMG LLP 16 Raffles Quay #22-00 Hong Leong Building Singapore 048581
Arrangers of the Programme	:	DBS Bank Ltd. 6 Shenton Way #35-00 DBS Building Tower One Singapore 068809 Standard Chartered Bank Marina Bay Financial Centre (Tower 1) 8 Marina Boulevard Level 20 Singapore 018981
Legal Advisers to the Arrangers and the Trustee (as at the establishment of the Programme)	:	Allen & Gledhill LLP One Marina Boulevard #28-00 Singapore 018989
Legal Advisers to the Issuer (as at the establishment of the Programme)	:	WongPartnership LLP One George Street #20-01 Singapore 049145
Issuing and Paying Agent and Agent Bank	:	Standard Chartered Bank Securities Services No 7, Changi Business Park Crescent Level 03, Changi Business Park Singapore 486028
Trustee for the Noteholders	:	DBS Trustee Limited 6 Shenton Way #14-01 DBS Building Tower One Singapore 068809

SUMMARY OF THE PROGRAMME

The following summary is derived from, and should be read in conjunction with, the full text of this Information Memorandum (and any relevant supplement to this Information Memorandum), the Trust Deed, the Agency Agreement and the relevant Pricing Supplement.

Issuer	:	Hyflux Ltd.
Arrangers	:	DBS Bank Ltd. and Standard Chartered Bank.
Dealers	:	DBS Bank Ltd., Standard Chartered Bank and/or such other dealers as may be appointed by the Issuer in accordance with the Programme Agreement.
Issuing and Paying Agent and Agent Bank	:	Standard Chartered Bank.
Description	:	Multicurrency Debt Issuance Programme.
Programme Size	:	The maximum aggregate principal amount of the Notes outstanding at any time shall be S\$800,000,000 (or its equivalent in other currencies) or such increased amount in accordance with the terms of the Programme Agreement.
Currency	:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in Singapore dollars or any other currency agreed between the Issuer and the relevant Dealer(s).
Method of Issue	:	Notes may be issued from time to time under the Programme on a syndicated or non-syndicated basis. Each Series may be issued in one or more Tranches, on the same or different issue dates. The specific terms of each Series or Tranche will be specified in the relevant Pricing Supplement.
Issue Price	:	Notes may be issued at par or at a discount, or premium, to par.
Maturities	:	Subject to compliance with all relevant laws, regulations and directives, Notes may have maturities of such tenor as may be agreed between the Issuer and the relevant Dealer(s).
Mandatory Redemption	:	Unless previously redeemed or purchased and cancelled, each Note will be redeemed at its redemption amount on the maturity date shown on its face.
Interest Basis	:	Notes may bear interest at fixed, floating, variable or hybrid rates or such other rates as may be agreed between the Issuer and the relevant Dealer(s) or may not bear interest.
Fixed Rate Notes	:	Fixed Rate Notes will bear a fixed rate of interest which will be payable in arrear on specified dates and at maturity.
Floating Rate Notes	:	Floating Rate Notes which are denominated in Singapore dollars will bear interest to be determined separately for each Series by reference to S\$ SIBOR or S\$ SWAP RATE (or in any other case such other benchmark as may be agreed between the Issuer and the relevant Dealer(s)), as adjusted

for any applicable margin. Interest periods in relation to the Floating Rate Notes will be agreed between the Issuer and the relevant Dealer(s) prior to their issue.

Floating Rate Notes which are denominated in other currencies will bear interest to be determined separately for each Series by reference to such other benchmark as may be agreed between the Issuer and the relevant Dealer(s).

- Variable Rate Notes : Variable Rate Notes will bear interest at a variable rate determined in accordance with the terms and conditions of the Notes. Interest periods in relation to the Variable Rate Notes will be agreed between the Issuer and the relevant Dealer(s) prior to their issue.
- Hybrid Notes : Hybrid Notes will bear interest, during the fixed rate period to be agreed between the Issuer and the relevant Dealer(s), at a fixed rate of interest which will be payable in arrear on specified dates and, during the floating rate period to be agreed between the Issuer and the relevant Dealer(s), at the rate of interest to be determined by reference to S\$ SIBOR or S\$ SWAP RATE (or such other benchmark as may be agreed between the Issuer and the relevant Dealer(s)), as adjusted for any applicable margin (provided that if the Hybrid Notes are denominated in a currency other than Singapore dollars, such Hybrid Notes will bear interest to be determined separately by reference to such benchmark as may be agreed between the Issuer and the relevant Dealer(s)), in each case payable at the end of each interest period to be agreed between the Issuer and the relevant Dealer(s).
- Zero Coupon Notes : Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest other than in the case of late payment.
- Form and Denomination of Notes : The Notes will be issued in bearer form only and in such denominations as may be agreed between the Issuer and the relevant Dealer(s). Each Tranche or Series of Notes may initially be represented by a Temporary Global Note or a Permanent Global Note. Each Temporary Global Note may be deposited on the relevant issue date with CDP, a common depository for Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system and will be exchangeable, upon request as described therein, either for a Permanent Global Note or definitive Notes (as indicated in the applicable Pricing Supplement). Each Permanent Global Note may be exchanged, unless otherwise specified in the applicable Pricing Supplement, upon request as described therein, in whole (but not in part) for definitive Notes upon the terms therein.
- Custody of the Notes : Notes which are to be listed on the SGX-ST may be cleared through CDP. Notes which are to be cleared through CDP are required to be kept with CDP as authorised depository. Notes which are cleared through Euroclear and/or Clearstream, Luxembourg are required to be kept with a common depository on behalf of Euroclear and Clearstream Luxembourg.

- Status of the Notes : The Notes and Coupons of all Series will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu*, without any preference or priority among themselves, and *pari passu* with all other present and future unsecured obligations (other than subordinated obligations and priorities created by law) of the Issuer.
- Redemption and Purchase : If so provided on the face of the Note and the relevant Pricing Supplement, Notes may be redeemed (either in whole or in part) prior to their stated maturity at the option of the Issuer and/or the holders of the Notes. Further, if so provided on the face of the Note and the relevant Pricing Supplement, Notes may be purchased by the Issuer (either in whole or in part) prior to their stated maturity at the option of the Issuer and/or the holders of the Notes.
- Negative Pledge : The Issuer has covenanted with the Trustee that so long as any of the Notes remains outstanding, it will not, and will ensure that none of its Principal Subsidiaries (as defined in the Trust Deed) will, create or have outstanding any security on or over their respective present or future assets, save for:
- (a) any security existing over any of its assets as of the date of the Trust Deed and disclosed in writing to the Trustee prior to the date of the Trust Deed and any security to be created over such asset in connection with the extension or refinancing of the credit facilities secured by the security over such asset at any time, provided that the amount secured by any such security may not be increased;
 - (b) liens or rights of set-off arising in the ordinary course of its business or by operation of law;
 - (c) any security over any of its assets acquired or developed by it or its Principal Subsidiaries after the date of the Trust Deed for the sole purpose of financing or refinancing the acquisition, development or expansion of such assets (and, for the avoidance of doubt, any construction, renovation or refurbishment undertaken in connection with such acquisition, development or expansion) and securing a principal amount not exceeding the cost of that acquisition, development or expansion at the time of such acquisition, development or expansion;
 - (d) any security existing at the time of the acquisition of any asset directly or indirectly acquired after the date of the Trust Deed and any substitute security created on that asset in connection with the extension or refinancing of the credit facilities secured by the security over such asset at any time, provided that the amount secured by any such security may not be increased;

- (e) in the case of a Principal Subsidiary) any security over any assets which are held on trust for the holders of units in a business trust fund or similar entity in its capacity as trustee or trustee-manager of such business trust fund or similar entity;
- (f) any security created pursuant to a court order as security for costs in connection with litigation outside Singapore as a condition for any prejudgment, attachment or injunction; and
- (g) any other security as shall be created with the approval of the Trustee or the Noteholders by way of an Extraordinary Resolution (as defined in the Trust Deed).

Financial Covenants : The Issuer has covenanted with the Trustee that so long as any of the Notes remains outstanding, it will ensure that:

- (a) the Consolidated Tangible Net Worth (as defined in the Trust Deed) shall not at any time be less than S\$160,000,000;
- (b) the ratio of Consolidated Net Debt (as defined in the Trust Deed) to Consolidated Tangible Net Worth shall not at any time be more than 1.5:1; and
- (c) the Interest Coverage Ratio (as defined in the Trust Deed) shall at all times be at least 3.0 times.

Events of Default : See Condition 9 of the Notes.

Taxation : All payments in respect of the Notes and the Coupons by the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Singapore or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such deduction or withholding been required, save for certain exceptions. For further details, please see the section on "Singapore Taxation" herein.

Listing : Each Series of the Notes may, if so agreed between the Issuer and the relevant Dealer(s), be listed on the SGX-ST or any stock exchange(s) as may be agreed between the Issuer and the relevant Dealer(s), subject to all necessary approvals having been obtained.

Selling Restrictions : For a description of certain restrictions on offers, sales and deliveries of Notes and the distribution of offering material relating to the Notes, see the section on "Subscription, Purchase and Distribution" herein. Further restrictions may apply in connection with any particular Series or Tranche of Notes.

Governing Law

: The Programme and any Notes issued under the Programme will be governed by, and construed in accordance with, the laws of Singapore.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, will be endorsed on the Notes in definitive form issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by a Trust Deed (as amended, varied and supplemented by the Supplemental Trust Deed dated 13 July 2011 and as further amended, varied or supplemented from time to time, the "**Trust Deed**") dated 3 July 2008 made between (1) Hyflux Ltd (the "**Issuer**") and (2) DBS Trustee Limited (the "**Trustee**", which expression shall wherever the context so admits include such company and all other persons for the time being the trustee or trustees of the Trust Deed), as trustee for the Noteholders (as defined below), and (where applicable) the Notes are issued with the benefit of a deed of covenant (as amended, varied and supplemented by the Supplemental Deed of Covenant dated 13 July 2011 and as further amended, varied or supplemented from time to time, the "**Deed of Covenant**") dated 3 July 2008, relating to the Notes executed by the Issuer. These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes and Coupons referred to below. The Issuer has entered into an Agency Agreement (as amended and supplemented, the "**Agency Agreement**") dated 3 July 2008 made between (1) the Issuer, (2) Standard Chartered Bank, as issuing and paying agent (in such capacity, the "**Issuing and Paying Agent**") and agent bank (in such capacity, the "**Agent Bank**"), and (3) the Trustee, as trustee. The Noteholders and the holders of the coupons (the "**Coupons**") appertaining to the interest-bearing Notes (the "**Couponholders**") are bound by and are deemed to have notice of all of the provisions of the Trust Deed, the Agency Agreement and the Deed of Covenant.

Copies of the Trust Deed, the Agency Agreement and the Deed of Covenant are available for inspection at the principal office of the Trustee for the time being and at the specified office of the Issuing and Paying Agent for the time being.

1. **Form, Denomination and Title**

(a) **Form and Denomination**

- (i) The Notes of the Series of which this Note forms part (in these Conditions, the "**Notes**") are issued in bearer form in each case in the Denomination Amount shown hereon.
- (ii) This Note is a Fixed Rate Note, a Floating Rate Note, a Variable Rate Note, a Hybrid Note or a Zero Coupon Note (depending upon the Interest Basis shown on its face).
- (iii) Notes are serially numbered and issued with Coupons attached, save in the case of Notes that do not bear interest in which case references to interest (other than in relation to default interest referred to in Condition 6(f)) in these Conditions are not applicable.

(b) **Title**

- (i) Title to the Notes and the Coupons appertaining thereto shall pass by delivery.
- (ii) Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Note or Coupon shall be deemed to be and may be treated as the absolute owner of such Note or of such Coupon, as the case may be, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Note or Coupon shall be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon made by anyone, and no person shall be liable for so treating the holder.

- (iii) For so long as any of the Notes is represented by a Global Note and such Global Note is held by a common depository for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) and/or The Central Depository (Pte) Limited (the “**Depository**”), each person who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg and/or the Depository as the holder of a particular principal amount of such Notes (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg and/or the Depository as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest or proven error) shall be treated by the Issuer, the Issuing and Paying Agent, the Agent Bank, all other agents of the Issuer and the Trustee as the holder of such principal amount of Notes other than with respect to the payment of principal, interest and any other amounts in respect of the Notes, for which purpose the bearer of the Global Note shall be treated by the Issuer, the Issuing and Paying Agent, the Agent Bank, all other agents of the Issuer and the Trustee as the holder of such Notes in accordance with and subject to the terms of the Global Note (and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly). Notes which are represented by the Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg and/or the Depository.
- (iv) In these Conditions, “**Global Note**” means the relevant Temporary Global Note representing each Series or the relevant Permanent Global Note representing each Series, “**Noteholder**” means the bearer of any Definitive Note and “**holder**” (in relation to a Definitive Note or Coupon) means the bearer of any Definitive Note or Coupon, “**Series**” means (a) (in relation to Notes other than Variable Rate Notes) a Tranche, together with any further Tranche or Tranches, which are (i) expressed to be consolidated and forming a single series and (ii) identical in all respects (including as to listing) except for their respective issue dates, issue prices and/or dates of the first payment of interest and (b) (in relation to Variable Rate Notes) Notes which are identical in all respects (including as to listing) except for their respective issue prices and rates of interest and “**Tranche**” means Notes which are identical in all respects (including as to listing).
- (v) Words and expressions defined in the Trust Deed or used in the applicable Pricing Supplement (as defined in the Trust Deed) shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

2. Status

The Notes and Coupons of all Series constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu*, without any preference or priority among themselves, and *pari passu* with all other present and future unsecured obligations (other than subordinated obligations and priorities created by law) of the Issuer.

3. Negative Pledge and Financial Covenants

- (a) In the Trust Deed, the Issuer has covenanted with the Trustee that so long as any of the Notes remains outstanding, it will not, and will ensure that none of its Principal Subsidiaries will, create or have outstanding any security on or over their respective present or future assets, save for:
 - (i) any security existing over any of its assets as of the date of the Trust Deed and disclosed in writing to the Trustee prior to the date of the Trust Deed and any security to be created over such asset in connection with the extension or refinancing of the credit facilities secured by the security over such asset at any time, provided that the amount secured by any such security may not be increased;
 - (ii) liens or rights of set-off arising in the ordinary course of its business or by operation of law;

- (iii) any security over any of its assets acquired or developed by it or its Principal Subsidiaries after the date of the Trust Deed for the sole purpose of financing or refinancing the acquisition, development or expansion of such assets (and, for the avoidance of doubt, any construction, renovation or refurbishment undertaken in connection with such acquisition, development or expansion) and securing a principal amount not exceeding the cost of that acquisition, development or expansion at the time of such acquisition, development or expansion;
 - (iv) any security existing at the time of the acquisition of any asset directly or indirectly acquired after the date of the Trust Deed and any substitute security created on that asset in connection with the extension or refinancing of the credit facilities secured by the security over such asset at any time, provided that the amount secured by any such security may not be increased;
 - (v) (in the case of a Principal Subsidiary) any security over any assets which are held on trust for the holders of units in a business trust fund or similar entity in its capacity as trustee or trustee-manager of such business trust fund or similar entity;
 - (vi) any security created pursuant to a court order as security for costs in connection with litigation outside Singapore as a condition for any prejudgment, attachment or injunction; and
 - (vii) any other security as shall be created with the approval of the Trustee or the Noteholders by way of an Extraordinary Resolution.
- (b) The Issuer has further covenanted with the Trustee that so long as any of the Notes remains outstanding, it will ensure that:
- (i) the Consolidated Tangible Net Worth shall not at any time be less than S\$160,000,000;
 - (ii) the ratio of Consolidated Net Debt to Consolidated Tangible Net Worth shall not at any time be more than 1.5:1; and
 - (iii) the Interest Coverage Ratio shall at all times be at least 3.0 times.

For the purposes of this Condition 3(b):

- (aa) **“Consolidated Interest Expense”** means, in relation to any period, the aggregate amount of interest (net of interest rate derivatives) and guarantee fee paid or payable by the Issuer and its subsidiaries in connection with all indebtedness during that period, including:
 - (I) the interest element of leasing and hire purchase payments; and
 - (II) amounts in the nature of interest payable in respect of any shares other than ordinary equity share capital;
- (bb) **“Consolidated Net Debt”** means in relation to the Group (as defined in the Trust Deed) at any time, an amount (expressed in Singapore dollars) for the time being, calculated on a consolidated basis, in accordance with generally accepted accounting principles in Singapore, equal to the aggregate of:
 - (I) bank overdrafts and all other indebtedness in respect of any borrowings;
 - (II) the principal amount of the Notes or any bonds or debentures of any member of the Group whether issued for cash or a consideration other than cash;
 - (III) the liabilities of the Issuer under the Trust Deed or the Notes;
 - (IV) all other indebtedness whatsoever of the Group for borrowed moneys (including but not limited to any indebtedness under a finance or capital lease, any moneys owing in connection with the sale or discounting of receivables (except to the extent that there

is no recourse) and any indebtedness of any person or type which is the subject of a guarantee, indemnity or similar assurance against financial loss given by a member of the Group); and

- (V) guarantees on moneys borrowed by members of the Group to the extent that such underlying debt are not consolidated in the Group's balance sheet,

net of cash balances and deposits which are not subject to any security and excluding limited or non-recourse project finance facilities taken up by any member of the Group other than the Issuer;

- (cc) **"Consolidated Tangible Net Worth"** means, at any date of determination, the amount (expressed in Singapore dollars) for the time being, calculated in accordance with generally accepted accounting principles in Singapore, equal to the aggregate of:

- (I) the amount paid up or credited as paid up on the issued share capital of the Issuer; and
- (II) the amounts standing to the credit of the capital and revenue reserves (including capital redemption reserve fund, revaluation reserves and profit and loss account but excluding hedging reserves and employee share option reserves) of the Group on a consolidated basis,

all as shown in the then latest audited consolidated balance sheet of the Group but after:

- (1) making such adjustments as may be appropriate in respect of any variation in the issued and paid up share capital and the capital and revenue reserves set out in paragraph (II) above of the Group since the date of the latest audited consolidated balance sheet of the Group;
- (2) excluding any sums set aside for future taxation; and
- (3) deducting (to the extent not already taken into account):
- (A) an amount equal to any distribution by any member of the Group out of profits earned prior to the date of the latest audited consolidated balance sheet of the Group and which have been declared, recommended or made since that date except so far as provided for in such balance sheet and/or paid or due to be paid to members of the Group;
- (B) all goodwill and other intangible assets (excluding intangible assets arising from service concession arrangements);
- (C) any debit balances on consolidated profit and loss account; and
- (D) minority interests;

- (dd) **"EBITDA"** means, in relation to any period, the aggregate of the net earnings of the Issuer and its subsidiaries on its ordinary activities during such period before taking into account Consolidated Interest Expense and income tax expense but making adjustments thereto by adding back depreciation charged and amount attributable to amortisation of goodwill and other intangible assets to the extent deducted in arriving at such earnings on ordinary activities during such period;

- (ee) **"intangible assets"** shall have the meaning ascribed to it in accordance with generally accepted accounting principles in Singapore;

- (ff) **“intangible assets arising from service concession arrangements”** shall be interpreted in accordance with the “Interpretation of Financial Reporting Standard – Service Concession Arrangements (INT FRS 112)” issued by the Accounting Standards Council of Singapore; and
- (gg) **“Interest Coverage Ratio”** means the ratio of EBITDA to Consolidated Interest Expense all as shown in the latest audited or unaudited consolidated profit and loss statement of the Group.

4. **(I) Interest on Fixed Rate Notes**

(a) Interest Rate and Accrual

Each Fixed Rate Note bears interest on its Calculation Amount (as defined in Condition 4(II)(d)) from the Interest Commencement Date in respect thereof and as shown on the face of such Note at the rate per annum (expressed as a percentage) equal to the Interest Rate shown on the face of such Note payable in arrear on each Interest Payment Date or Interest Payment Dates shown on the face of such Note in each year and on the Maturity Date shown on the face of such Note if that date does not fall on an Interest Payment Date.

The first payment of interest will be made on the Interest Payment Date next following the Interest Commencement Date (and if the Interest Commencement Date is not an Interest Payment Date, will amount to the Initial Broken Amount shown on the face of such Note), unless the Maturity Date falls before the date on which the first payment of interest would otherwise be due. If the Maturity Date is not an Interest Payment Date, interest from the preceding Interest Payment Date (or from the Interest Commencement Date, as the case may be) to the Maturity Date will amount to the Final Broken Amount shown on the face of the Note.

Interest will cease to accrue on each Fixed Rate Note from the due date for redemption thereof unless, upon due presentation and subject to the provisions of the Trust Deed, payment of principal is improperly withheld or refused, in which event interest at such rate will continue to accrue (as well after as before judgment) at the rate and in the manner provided in this Condition 4(I) to the Relevant Date (as defined in Condition 7).

(b) Calculations

In the case of a Fixed Rate Note, interest in respect of a period of less than one year will be calculated on the Day Count Fraction shown on the face of the Note.

(II) Interest on Floating Rate Notes or Variable Rate Notes

(a) Interest Payment Dates

Each Floating Rate Note or Variable Rate Note bears interest on its Calculation Amount from the Interest Commencement Date in respect thereof and as shown on the face of such Note, and such interest will be payable in arrear on each date (**“Interest Payment Date”**). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which (save as mentioned in these Conditions) falls the number of months specified as the Interest Period on the face of the Note (the **“Specified Number of Months”**) after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date (and which corresponds numerically with such preceding Interest Payment Date or the Interest Commencement Date, as the case may be), provided that the Agreed Yield (as defined in Condition 4(II)(c)) in respect of any Variable Rate Note for any Interest Period (as defined below) relating to that Variable Rate Note shall be payable on the first day of that Interest Period. If any Interest Payment Date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a business day, then if the Business Day Convention specified is (1) the Floating Rate Business Day Convention, such date shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month, in which event (i) such date shall be brought forward to the immediately preceding business day and (ii) each subsequent such date shall be the last business day

of the month in which such date would have fallen had it not been subject to adjustment, (2) the Following Business Day Convention, such date shall be postponed to the next day that is a business day, (3) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a business day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding business day or (4) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding business day.

The period beginning on the Interest Commencement Date and ending on the first Interest Payment Date and each successive period beginning on an Interest Payment Date and ending on the next succeeding Interest Payment Date is herein called an “**Interest Period**”.

Interest will cease to accrue on each Floating Rate Note or Variable Rate Note from the due date for redemption thereof unless, upon due presentation and subject to the provisions of the Trust Deed, payment of the Redemption Amount is improperly withheld or refused, in which event interest will continue to accrue (as well after as before judgment) at the rate and in the manner provided in this Condition 4(II) to the Relevant Date.

(b) Rate of Interest - Floating Rate Notes

- (i) Each Floating Rate Note bears interest at a floating rate determined by reference to a Benchmark as stated on the face of such Floating Rate Note, being (in the case of Notes which are denominated in Singapore dollars) SIBOR (in which case such Note will be a SIBOR Note) or Swap Rate (in which case such Note will be a Swap Rate Note) or in any case (or in the case of Notes which are denominated in a currency other than Singapore dollars) such other Benchmark as is set out on the face of such Note.

Such floating rate may be adjusted by adding or subtracting the Spread (if any) stated on the face of such Note. The “Spread” is the percentage rate per annum specified on the face of such Note as being applicable to the rate of interest for such Note. The rate of interest so calculated shall be subject to Condition 4(V)(a) below.

The rate of interest payable in respect of a Floating Rate Note from time to time is referred to in these Conditions as the “**Rate of Interest**”.

- (ii) The Rate of Interest payable from time to time in respect of each Floating Rate Note will be determined by the Agent Bank on the basis of the following provisions:
- (1) in the case of Floating Rate Notes which are SIBOR Notes:
- (A) the Agent Bank will, at or about the Relevant Time on the relevant Interest Determination Date in respect of each Interest Period, determine the Rate of Interest for such Interest Period which shall be the offered rate for deposits in Singapore dollars for a period equal to the duration of such Interest Period which appears on Page ABSI on the monitor of the Bloomberg agency under the caption “ASSOCIATION OF BANKS IN SG – SWAP OFFER AND SIBOR FIXING RATES – RATES AT 11:00AM SINGAPORE TIME” and under the column headed “SGD SIBOR” (or such other replacement page thereof) and as adjusted by the Spread (if any);
- (B) if on any Interest Determination Date, no such rate appears on Page ABSI on the monitor of the Bloomberg agency (or such other replacement page thereof), the Agent Bank will determine the Rate of Interest for such Interest Period which shall be the rate which appears on the Reuters Screen ABSIRFIX01 Page under the caption “ASSOCIATION OF BANKS IN SINGAPORE – SIBOR AND SWAP OFFER RATES – RATES AT 11:00 AM SINGAPORE TIME” and under the column headed “SGD SIBOR” (or such other replacement page thereof) and as adjusted by the Spread (if any);

- (C) if no such rate appears on the Reuters Screen ABSIRFIX01 Page (or such other replacement page thereof or such other Screen Page (as defined below) as may be provided hereon) or if the Reuters Screen ABSIRFIX01 Page (or such other replacement page thereof or such other Screen Page as may be provided hereon) is unavailable for any reason, the Agent Bank will request the principal Singapore offices of each of the Reference Banks to provide the Agent Bank with the rate at which deposits in Singapore dollars are offered by it at approximately the Relevant Time on the Interest Determination Date to prime banks in the Singapore interbank market for a period equivalent to the duration of such Interest Period commencing on such Interest Payment Date in an amount comparable to the aggregate principal amount of the relevant Floating Rate Notes. The Rate of Interest for such Interest Period shall be the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) of such offered quotations and as adjusted by the Spread (if any), as determined by the Agent Bank;
 - (D) if on any Interest Determination Date, two but not all the Reference Banks provide the Agent Bank with such quotations, the Rate of Interest for the relevant Interest Period shall be determined in accordance with (C) above on the basis of the quotations of those Reference Banks providing such quotations; and
 - (E) if on any Interest Determination Date, one only or none of the Reference Banks provides the Agent Bank with such quotation, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent Bank determines to be the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) of the prime lending rates for Singapore dollars quoted by the Reference Banks at or about the Relevant Time on such Interest Determination Date and as adjusted by the Spread (if any);
- (2) in the case of Floating Rate Notes which are Swap Rate Notes:
- (A) the Agent Bank will, at or about the Relevant Time on the relevant Interest Determination Date in respect of each Interest Period, determine the Rate of Interest for such Interest Period which shall be the Average Swap Rate for such Interest Period (determined by the Agent Bank as being the rate which appears on Page ABSI on the monitor of the Bloomberg agency under the caption "ASSOCIATION OF BANKS IN SG – SWAP OFFER AND SIBOR FIXING RATES – RATES AT 11:00AM SINGAPORE TIME" and under the column headed "SGD SWAP OFFER" (or such other page as may replace Page ABSI for the purpose of displaying the swap rates of leading reference banks) at or about the Relevant Time on such Interest Determination Date and for a period equal to the duration of such Interest Period) and as adjusted by the Spread (if any);
 - (B) if on any Interest Determination Date, no such rate appears on Page ABSI on the monitor of the Bloomberg agency (or such other replacement page thereof), the Agent Bank will determine the Rate of Interest for such Interest Period which shall be the Average Swap Rate for such Interest Period (determined by the Agent Bank as being the rate which appears on the Reuters Screen ABSIRFIX01 Page under the caption "ASSOCIATION OF BANKS IN SINGAPORE – SIBOR AND SWAP OFFER RATES – RATES AT 11:00 AM SINGAPORE TIME" and under the column headed "SGD SWAP OFFER" (or such other page as may replace the Reuters Screen ABSIRFIX01 Page for the purpose of displaying the swap rates of leading reference banks) at or about the Relevant Time on such Interest Determination Date and for a period equal to the duration of such Interest Period) and as adjusted by the Spread (if any);

- (C) if on any Interest Determination Date, no such rate appears on the Reuters Screen ABSIRFIX01 Page (or such other replacement page thereof or such other Screen Page as may be provided hereon) or if the Reuters Screen ABSIRFIX01 Page (or such other replacement page thereof or such other Screen Page as may be provided hereon) is unavailable for any reason, the Agent Bank will determine the Average Swap Rate (which shall be rounded up, if necessary, to the nearest 1/16 per cent.) for such Interest Period in accordance with the following formula:

In the case of Premium:

$$\begin{aligned} \text{Average Swap Rate} &= \frac{365}{360} \times \text{SIBOR} + \frac{(\text{Premium} \times 36500)}{(\text{T} \times \text{Spot Rate})} \\ &+ \frac{(\text{SIBOR} \times \text{Premium})}{(\text{Spot Rate})} \times \frac{365}{360} \end{aligned}$$

In the case of Discount:

$$\begin{aligned} \text{Average Swap Rate} &= \frac{365}{360} \times \text{SIBOR} - \frac{(\text{Discount} \times 36500)}{(\text{T} \times \text{Spot Rate})} \\ &- \frac{(\text{SIBOR} \times \text{Discount})}{(\text{Spot Rate})} \times \frac{365}{360} \end{aligned}$$

where:

SIBOR = the rate which appears on Page ABSI on the monitor of the Bloomberg agency under the caption "ASSOCIATION OF BANKS IN SG – SWAP OFFER AND SIBOR FIXING RATES – RATES AT 11:00AM SINGAPORE TIME" and under the column headed "USD SIBOR" (or such other page as may replace Page ABSI for the purpose of displaying Singapore interbank United States dollar offered rates of leading reference banks) at or about the Relevant Time on the relevant Interest Determination Date for a period equal to the duration of the Interest Period concerned;

Spot Rate = the rate being the composite quotation or in the absence of which, the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) (determined by the Agent Bank) of the rates quoted by the Reference Banks and which appear on Page ABSI on the monitor of the Bloomberg agency under the caption "ASSOCIATION OF BANKS IN SG – FX and SGD Swap Points" (or such other page as may replace Page ABSI for the purpose of displaying the spot rates and swap points of leading reference banks) at or about the Relevant Time on the relevant Interest Determination Date for a period equal to the duration of the Interest Period concerned;

Premium or Discount = the rate being the composite quotation or in the absence of which, the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) (determined by the Agent Bank) of the rates quoted by the Reference Banks for a period equal to the duration of the Interest Period concerned which appears on Page ABSI on the monitor of the Bloomberg agency under the caption "ASSOCIATION OF BANKS IN SG – FX and SGD Swap Points" (or such other page as may replace Page ABSI for the purpose of displaying the spot rates and swap points of leading reference banks) at or about the Relevant Time on the relevant Interest Determination Date for a period equal to the duration of the Interest Period concerned; and

T = the number of days in the Interest Period concerned.

The Rate of Interest for such Interest Period shall be the Average Swap Rate (as determined by the Agent Bank) and as adjusted by the Spread (if any);

- (D) if on any Interest Determination Date, any one of the components for the purposes of calculating the Average Swap Rate under (C) above is not quoted on Page ABSI on the monitor of the Bloomberg agency (or such other replacement page thereof) or if Page ABSI on the monitor of the Bloomberg agency (or such other replacement page thereof) is unavailable for any reason, the Agent Bank will determine the Average Swap Rate (which shall be rounded up, if necessary, to the nearest 1/16 per cent.) for such Interest Period in accordance with the following formula:

In the case of Premium:

$$\begin{aligned} \text{Average Swap Rate} &= \frac{365}{360} \times \text{SIBOR} + \frac{(\text{Premium} \times 36500)}{(T \times \text{Spot Rate})} \\ &+ \frac{(\text{SIBOR} \times \text{Premium})}{(\text{Spot Rate})} \times \frac{365}{360} \end{aligned}$$

In the case of Discount:

$$\begin{aligned} \text{Average Swap Rate} &= \frac{365}{360} \times \text{SIBOR} - \frac{(\text{Discount} \times 36500)}{(T \times \text{Spot Rate})} \\ &- \frac{(\text{SIBOR} \times \text{Discount})}{(\text{Spot Rate})} \times \frac{365}{360} \end{aligned}$$

where:

SIBOR = the rate which appears on the Reuters Screen ABSIRFIX01 Page under the caption "ASSOCIATION OF BANKS IN SINGAPORE – SIBOR AND SWAP OFFER RATES – RATES AT 11:00 AM SINGAPORE TIME" and under the column headed "USD SIBOR" (or such

other page as may replace the Reuters Screen ABSIRFIX01 Page for the purpose of displaying Singapore interbank United States dollar offered rates of leading reference banks) at or about the Relevant Time on the relevant Interest Determination Date for a period equal to the duration of the Interest Period concerned;

Spot Rate = the rate being the composite quotation or in the absence of which, the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) (determined by the Agent Bank) of the rates quoted by the Reference Banks and which appear on the Reuters Screen ABSIRFIX06 Page under the caption "ASSOCIATION OF BANKS IN SINGAPORE – SGD SPOT AND SWAP OFFER RATES – RATES AT 11:00 AM SINGAPORE TIME" and under the column headed "SPOT" (or such other page as may replace the Reuters Screen ABSIRFIX06 Page for the purpose of displaying the spot rates and swap points of leading reference banks) at or about the Relevant Time on the relevant Interest Determination Date for a period equal to the duration of the Interest Period concerned;

Premium or Discount = the rate being the composite quotation or in the absence of which, the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) (determined by the Agent Bank) of the rates quoted by the Reference Banks for a period equal to the duration of the Interest Period concerned which appear on the Reuters Screen ABSIRFIX06-7 Pages under the caption "ASSOCIATION OF BANKS IN SINGAPORE – SGD SPOT AND SWAP OFFER RATES – RATES AT 11:00 AM SINGAPORE TIME" (or such other page as may replace the Reuters Screen ABSIRFIX06-7 Pages for the purpose of displaying the spot rates and swap points of leading reference banks) at or about the Relevant Time on the relevant Interest Determination Date for a period equal to the duration of the Interest Period concerned; and

T = the number of days in the Interest Period concerned.

The Rate of Interest for such Interest Period shall be the Average Swap Rate (as determined by the Agent Bank) and as adjusted by the Spread (if any);

- (E) if on any Interest Determination Date, any one of the components for the purposes of calculating the Average Swap Rate under (D) above is not quoted on the relevant Reuters Screen Page (or such other replacement page thereof or such other Screen Page as may be provided hereon) or the relevant Reuters Screen Page (or such other replacement page thereof or such other Screen Page as may be provided hereon) is unavailable for any reason, the Agent Bank will request the principal

Singapore offices of the Reference Banks to provide the Agent Bank with quotations of their Swap Rates for the Interest Period concerned at or about the Relevant Time on that Interest Determination Date and the Rate of Interest for such Interest Period shall be the Average Swap Rate for such Interest Period (which shall be the rate per annum equal to the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) of the Swap Rates quoted by the Reference Banks to the Agent Bank) and as adjusted by the Spread (if any). The Swap Rate of a Reference Bank means the rate at which that Reference Bank can generate Singapore dollars for the Interest Period concerned in the Singapore interbank market at or about the Relevant Time on the relevant Interest Determination Date and shall be determined as follows:

In the case of Premium:

$$\begin{aligned} \text{Swap Rate} &= \frac{365}{360} \times \text{SIBOR} + \frac{(\text{Premium} \times 36500)}{(\text{T} \times \text{Spot Rate})} \\ &+ \frac{(\text{SIBOR} \times \text{Premium})}{(\text{Spot Rate})} \times \frac{365}{360} \end{aligned}$$

In the case of Discount:

$$\begin{aligned} \text{Swap Rate} &= \frac{365}{360} \times \text{SIBOR} - \frac{(\text{Discount} \times 36500)}{(\text{T} \times \text{Spot Rate})} \\ &- \frac{(\text{SIBOR} \times \text{Discount})}{(\text{Spot Rate})} \times \frac{365}{360} \end{aligned}$$

where:

SIBOR = the rate per annum at which United States dollar deposits for a period equal to the duration of the Interest Period concerned are being offered by that Reference Bank to prime banks in the Singapore interbank market at or about the Relevant Time on the relevant Interest Determination Date;

Spot Rate = the rate at which that Reference Bank sells United States dollars spot in exchange for Singapore dollars in the Singapore interbank market at or about the Relevant Time on the relevant Interest Determination Date;

Premium = the premium that would have been paid by that Reference Bank in buying United States dollars forward in exchange for Singapore dollars on the last day of the Interest Period concerned in the Singapore interbank market;

Discount = the discount that would have been received by that Reference Bank in buying United States dollars forward in exchange for Singapore dollars on the last day of the Interest Period concerned in the Singapore interbank market; and

T = the number of days in the Interest Period concerned;

- (F) if on any Interest Determination Date, two but not all the Reference Banks provide the Agent Bank with quotations of their Swap Rate(s), the Average Swap Rate for the relevant Interest Period shall be determined in accordance with (E) above on the basis of the quotations of those Reference Banks providing such quotations; and
 - (G) if on any Interest Determination Date, one only or none of the Reference Banks provides the Agent Bank with such quotation, the Rate of Interest for the relevant Interest Period shall be the rate per annum equal to the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) of the prime lending rates for Singapore dollars quoted by the Reference Banks at or about the Relevant Time on such Interest Determination Date and as adjusted by the Spread (if any); and
- (3) in the case of Floating Rate Notes which are not SIBOR Notes or Swap Rate Notes or which are denominated in a currency other than Singapore dollars, the Agent Bank will determine the Rate of Interest in respect of any Interest Period at or about the Relevant Time on the Interest Determination Date in respect of such Interest Period as follows:
- (A) if the Primary Source (as defined below) for the Floating Rate is a Screen Page (as defined below), subject as provided below, the Rate of Interest in respect of such Interest Period shall be:
 - (aa) the Relevant Rate (as defined below) (where such Relevant Rate on such Screen Page is a composite quotation or is customarily supplied by one entity); or
 - (bb) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Screen Page, in each case appearing on such Screen Page at the Relevant Time on the Interest Determination Date,

and as adjusted by the Spread (if any);
 - (B) if the Primary Source for the Floating Rate is Reference Banks or if paragraph (b)(ii)(3)(A)(aa) applies and no Relevant Rate appears on the Screen Page at the Relevant Time on the Interest Determination Date or if paragraph (b)(ii)(3)(A)(bb) applies and fewer than two Relevant Rates appear on the Screen Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the rate per annum which the Agent Bank determines to be the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre (as defined below) at the Relevant Time on the Interest Determination Date and as adjusted by the Spread (if any); and
 - (C) if paragraph (b)(ii)(3)(B) applies and the Agent Bank determines that fewer than two Reference Banks are so quoting Relevant Rates, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date.
- (iii) On the last day of each Interest Period, the Issuer will pay interest on each Floating Rate Note to which such Interest Period relates at the Rate of Interest for such Interest Period.

(c) Rate of Interest - Variable Rate Notes

- (i) Each Variable Rate Note bears interest at a variable rate determined in accordance with the provisions of this paragraph (c). The interest payable in respect of a Variable Rate Note on the first day of an Interest Period relating to that Variable Rate Note is referred to in these Conditions as the “**Agreed Yield**” and the rate of interest payable in respect of a Variable Rate Note on the last day of an Interest Period relating to that Variable Rate Note is referred to in these Conditions as the “**Rate of Interest**”.
- (ii) The Agreed Yield or, as the case may be, the Rate of Interest payable from time to time in respect of each Variable Rate Note for each Interest Period shall, subject as referred to in paragraph (c)(iv) below, be determined as follows:
 - (1) not earlier than 9.00 a.m. (Singapore time) on the ninth business day nor later than 3.00 p.m. (Singapore time) on the third business day prior to the commencement of each Interest Period, the Issuer and the Relevant Dealer (as defined below) shall endeavour to agree on the following:
 - (A) whether interest in respect of such Variable Rate Note is to be paid on the first day or the last day of such Interest Period;
 - (B) if interest in respect of such Variable Rate Note is agreed between the Issuer and the Relevant Dealer to be paid on the first day of such Interest Period, an Agreed Yield in respect of such Variable Rate Note for such Interest Period (and, in the event of the Issuer and the Relevant Dealer so agreeing on such Agreed Yield, the Interest Amount (as defined below) for such Variable Rate Note for such Interest Period shall be zero); and
 - (C) if interest in respect of such Variable Rate Note is agreed between the Issuer and the Relevant Dealer to be paid on the last day of such Interest Period, a Rate of Interest in respect of such Variable Rate Note for such Interest Period (an “**Agreed Rate**”) and, in the event of the Issuer and the Relevant Dealer so agreeing on an Agreed Rate, such Agreed Rate shall be the Rate of Interest for such Variable Rate Note for such Interest Period; and
 - (2) if the Issuer and the Relevant Dealer shall not have agreed either an Agreed Yield or an Agreed Rate in respect of such Variable Rate Note for such Interest Period by 3.00 p.m. (Singapore time) on the third business day prior to the commencement of such Interest Period, or if there shall be no Relevant Dealer during the period for agreement referred to in (1) above, the Rate of Interest for such Variable Rate Note for such Interest Period shall automatically be the rate per annum equal to the Fall Back Rate (as defined below) for such Interest Period.
- (iii) The Issuer has undertaken to the Issuing and Paying Agent and the Agent Bank that it will as soon as possible after the Agreed Yield or, as the case may be, the Agreed Rate in respect of any Variable Rate Note is determined but not later than 10.30 a.m. (Singapore time) on the next following business day:
 - (1) notify the Issuing and Paying Agent and the Agent Bank of the Agreed Yield or, as the case may be, the Agreed Rate for such Variable Rate Note for such Interest Period; and
 - (2) cause such Agreed Yield or, as the case may be, Agreed Rate for such Variable Rate Note to be notified by the Issuing and Paying Agent to the relevant Noteholder at its request.
- (iv) For the purposes of sub-paragraph (ii) above, the Rate of Interest for each Interest Period for which there is neither an Agreed Yield nor Agreed Rate in respect of any Variable Rate Note or no Relevant Dealer in respect of the Variable Rate Note(s) shall

be the rate (the “**Fall Back Rate**”) determined by reference to a Benchmark as stated on the face of such Variable Rate Note(s), being (in the case of Variable Rate Notes which are denominated in Singapore dollars) SIBOR (in which case such Variable Rate Note(s) will be SIBOR Note(s)) or Swap Rate (in which case such Variable Rate Note(s) will be Swap Rate Note(s)) or (in any other case or in the case of Variable Rate Notes which are denominated in a currency other than Singapore dollars) such other Benchmark as is set out on the face of such Variable Rate Note(s).

Such rate may be adjusted by adding or subtracting the Spread (if any) stated on the face of such Variable Rate Note. The “Spread” is the percentage rate per annum specified on the face of such Variable Rate Note as being applicable to the rate of interest for such Variable Rate Note. The rate of interest so calculated shall be subject to Condition 4(V)(a) below.

The Fall Back Rate payable from time to time in respect of each Variable Rate Note will be determined by the Agent Bank in accordance with the provisions of Condition 4(II)(b)(ii) above (*mutatis mutandis*) and references therein to “**Rate of Interest**” shall mean “**Fall Back Rate**”.

- (v) If interest is payable in respect of a Variable Rate Note on the first day of an Interest Period relating to such Variable Rate Note, the Issuer will pay the Agreed Yield applicable to such Variable Rate Note for such Interest Period on the first day of such Interest Period. If interest is payable in respect of a Variable Rate Note on the last day of an Interest Period relating to such Variable Rate Note, the Issuer will pay the Interest Amount for such Variable Rate Note for such Interest Period on the last day of such Interest Period.

(d) Definitions

As used in these Conditions:

“**Benchmark**” means the rate specified as such in the applicable Pricing Supplement;

“**business day**” means:

- (i) (in the case of Notes denominated in Singapore dollars) a day (other than a Saturday or Sunday) on which commercial banks are open for business in Singapore; and
- (ii) (in the case of Notes denominated in a currency other than Singapore dollars), a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in Singapore and the principal financial centre for that currency;

“**Calculation Amount**” means the amount specified as such on the face of any Note, or if no such amount is so specified, the Denomination Amount of such Note as shown on the face thereof;

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified as the Interest Commencement Date on the face of such Note;

“**Interest Determination Date**” means, in respect of any Interest Period, that number of business days prior thereto as is set out in the applicable Pricing Supplement or on the face of the relevant Note;

“**Primary Source**” means the Screen Page specified as such in the applicable Pricing Supplement and (in the case of any Screen Page provided by any information service other than the Bloomberg agency or the Reuters Monitor Money Rates Service (“**Reuters**”)) agreed to by the Agent Bank;

“Reference Banks” means the institutions specified as such hereon or, if none, three major banks selected by the Agent Bank in the interbank market that is most closely connected with the Benchmark;

“Relevant Currency” means the currency in which the Notes are denominated;

“Relevant Dealer” means, in respect of any Variable Rate Note, the Dealer party to the Programme Agreement referred to in the Agency Agreement with whom the Issuer has concluded or is negotiating an agreement for the issue of such Variable Rate Note pursuant to the Programme Agreement;

“Relevant Financial Centre” means, in the case of interest to be determined on an Interest Determination Date with respect to any Floating Rate Note or Variable Rate Note, the financial centre with which the relevant Benchmark is most closely connected or, if none is so connected, Singapore;

“Relevant Rate” means the Benchmark for a Calculation Amount of the Relevant Currency for a period (if applicable or appropriate to the Benchmark) equal to the relevant Interest Period;

“Relevant Time” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Relevant Currency in the interbank market in the Relevant Financial Centre; and

“Screen Page” means such page, section, caption, column or other part of a particular information service (including, but not limited to, the Bloomberg agency and Reuters) as may be specified hereon for the purpose of providing the Benchmark, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Benchmark.

(III) Interest on Hybrid Notes

(a) Interest Rate and Accrual

Each Hybrid Note bears interest on its Calculation Amount from the Interest Commencement Date in respect thereof and as shown on the face of such Note.

(b) Fixed Rate Period

- (i) In respect of the Fixed Rate Period shown on the face of such Note, each Hybrid Note bears interest on its Calculation Amount from the first day of the Fixed Rate Period at the rate per annum (expressed as a percentage) equal to the Interest Rate shown on the face of such Note payable in arrear on each Interest Payment Date or Interest Payment Dates shown on the face of the Note in each year and on the last day of the Fixed Rate Period if that date does not fall on an Interest Payment Date.
- (ii) The first payment of interest will be made on the Interest Payment Date next following the first day of the Fixed Rate Period (and if the first day of the Fixed Rate Period is not an Interest Payment Date, will amount to the Initial Broken Amount shown on the face of such Note), unless the last day of the Fixed Rate Period falls before the date on which the first payment of interest would otherwise be due. If the last day of the Fixed Rate Period is not an Interest Payment Date, interest from the preceding Interest Payment Date (or from the first day of the Fixed Rate Period, as the case may be) to the last day of the Fixed Rate Period will amount to the Final Broken Amount shown on the face of the Note.
- (iii) Where the due date of redemption of any Hybrid Note falls within the Fixed Rate Period, interest will cease to accrue on the Note from the due date for redemption thereof unless, upon due presentation and subject to the provisions of the Trust Deed,

payment of principal (or Redemption Amount, as the case may be) is improperly withheld or refused, in which event interest at such rate will continue to accrue (as well after as before judgment) at the rate and in the manner provided in this Condition 4(III) to the Relevant Date.

- (iv) In the case of a Hybrid Note, interest in respect of a period of less than one year will be calculated on the Day Count Fraction shown on the face of the Note during the Fixed Rate Period.

(c) Floating Rate Period

- (i) In respect of the Floating Rate Period shown on the face of such Note, each Hybrid Note bears interest on its Calculation Amount from the first day of the Floating Rate Period, and such interest will be payable in arrear on each date (“**Interest Payment Date**”). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which (save as mentioned in these Conditions) falls the number of months specified as the Interest Period on the face of the Note (the “**Specified Number of Months**”) after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the first day of the Floating Rate Period (and which corresponds numerically with such preceding Interest Payment Date or the first day of the Floating Rate Period, as the case may be). If any Interest Payment Date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a business day, then if the Business Day Convention specified is (1) the Floating Rate Business Day Convention, such date shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month, in which event (i) such date shall be brought forward to the immediately preceding business day and (ii) each subsequent such date shall be the last business day of the month in which such date would have fallen had it not been subject to adjustment, (2) the Following Business Day Convention, such date shall be postponed to the next day that is a business day, (3) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a business day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding business day or (4) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding business day.
- (ii) The period beginning on the first day of the Floating Rate Period and ending on the first Interest Payment Date and each successive period beginning on an Interest Payment Date and ending on the next succeeding Interest Payment Date is herein called an “**Interest Period**”.
- (iii) Where the due date of redemption of any Hybrid Note falls within the Floating Rate Period, interest will cease to accrue on the Note from the due date for redemption thereof unless, upon due presentation thereof, payment of principal (or Redemption Amount, as the case may be) is improperly withheld or refused, in which event interest will continue to accrue (as well after as before judgment) at the rate and in the manner provided in this Condition 4(III) and the Agency Agreement to the Relevant Date.
- (iv) The provisions of Condition 4(II)(b) shall apply to each Hybrid Note during the Floating Rate Period as though references therein to Floating Rate Notes are references to Hybrid Notes.

(IV) Zero Coupon Notes

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note (determined in accordance with Condition 5(h)). As from the Maturity Date, the rate of interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as defined in Condition 5(h)).

(V) Calculations

(a) Determination of Rate of Interest and Calculation of Interest Amounts

The Agent Bank will, as soon as practicable after the Relevant Time on each Interest Determination Date determine the Rate of Interest and calculate the amount of interest payable (the “**Interest Amounts**”) in respect of each Calculation Amount of the relevant Floating Rate Notes, Variable Rate Notes or (where applicable) Hybrid Notes for the relevant Interest Period. The amount of interest payable in respect of any Note shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount, by the Day Count Fraction shown on the Note and rounding the resultant figure to the nearest sub-unit of the Relevant Currency. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Agent Bank shall (in the absence of manifest or proven error) be final and binding upon all parties.

(b) Notification

The Agent Bank will cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to the Issuing and Paying Agent, the Trustee and the Issuer and (in the case of Floating Rate Notes) to be notified to Noteholders in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth business day thereafter. The Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period by reason of any Interest Payment Date not being a business day. If the Floating Rate Notes, Variable Rate Notes or, as the case may be, Hybrid Notes become due and payable under Condition 9, the Rate of Interest and Interest Amounts payable in respect of the Floating Rate Notes, Variable Rate Notes or, as the case may be, Hybrid Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest and Interest Amounts need to be made unless the Trustee requires otherwise.

(c) Determination or Calculation by the Trustee

If the Agent Bank does not at any material time determine or calculate the Rate of Interest for an Interest Period or any Interest Amount, the Trustee shall do so. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects, it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(d) Agent Bank and Reference Banks

The Issuer will procure that, so long as any Floating Rate Note, Variable Rate Note or Hybrid Note remains outstanding, there shall at all times be three Reference Banks (or such other number as may be required) and, so long as any Floating Rate Note, Variable Rate Note, Hybrid Note or Zero Coupon Note remains outstanding, there shall at all times be an Agent Bank. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank or the Agent Bank is unable or unwilling to act as such or if the Agent Bank fails duly to establish the Rate of Interest for any Interest Period or to calculate the Interest Amounts, the Issuer will appoint another bank with an office in the Relevant Financial Centre to act as such in its place. The Agent Bank may not resign its duties without a successor having been appointed as aforesaid.

5. Redemption and Purchase

(a) Final Redemption

Unless previously redeemed or purchased and cancelled as provided below, this Note will be redeemed at its Redemption Amount on the Maturity Date shown on its face (if this Note is shown on its face to be a Fixed Rate Note, Hybrid Note (during the Fixed Rate Period) or Zero Coupon Note) or on the Interest Payment Date falling in the Redemption Month shown on its face (if this Note is shown on its face to be a Floating Rate Note, Variable Rate Note or Hybrid Note (during the Floating Rate Period)).

(b) Purchase at the Option of Issuer

If so provided hereon, the Issuer shall have the option to purchase all or any of the Fixed Rate Notes, Floating Rate Notes, Variable Rate Notes or Hybrid Notes at their Redemption Amount on any date on which interest is due to be paid on such Notes and the Noteholders shall be bound to sell such Notes to the Issuer accordingly. To exercise such option, the Issuer shall give irrevocable notice to the Noteholders within the Issuer's Purchase Option Period shown on the face hereof. Such Notes may be held, resold or surrendered to the Issuing and Paying Agent for cancellation. The Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 9, 10 and 11.

In the case of a purchase of some only of the Notes, the notice to Noteholders shall also contain the certificate numbers of the Notes to be purchased, which shall have been drawn by or on behalf of the Issuer in such place and in such manner as may be agreed between the Issuer and the Trustee, subject to compliance with any applicable laws. So long as the Notes are listed on the Singapore Exchange Securities Trading Limited, the Issuer shall comply with the rules of such Stock Exchange in relation to the publication of any purchase of Notes.

(c) Purchase at the Option of Noteholders

(i) Each Noteholder shall have the option to have all or any of his Variable Rate Notes purchased by the Issuer at their Redemption Amount on any Interest Payment Date and the Issuer will purchase such Variable Rate Notes accordingly. To exercise such option, a Noteholder shall deposit any Variable Rate Notes to be purchased with the Issuing and Paying Agent at its specified office together with all Coupons relating to such Variable Rate Notes which mature after the date fixed for purchase, together with a duly completed option exercise notice in the form obtainable from the Issuing and Paying Agent within the Noteholders' VRN Purchase Option Period shown on the face hereof. Any Variable Rate Notes so deposited may not be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer. Such Variable Rate Notes may be held, resold or surrendered to the Issuing and Paying Agent for cancellation. The Variable Rate Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 9, 10 and 11.

(ii) If so provided hereon, each Noteholder shall have the option to have all or any of his Fixed Rate Notes, Floating Rate Notes or Hybrid Notes purchased by the Issuer at their Redemption Amount on any date on which interest is due to be paid on such Notes and the Issuer will purchase such Notes accordingly. To exercise such option, a Noteholder shall deposit any Notes to be purchased with the Issuing and Paying Agent at its specified office together with all Coupons relating to such Notes which mature after the date fixed for purchase, together with a duly completed option exercise notice in the form obtainable from the Issuing and Paying Agent within the Noteholders' Purchase Option Period shown on the face hereof. Any Notes so deposited may not be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer. Such Notes may be held, resold or surrendered to the Issuing and Paying Agent for cancellation. The Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 9, 10 and 11.

(d) Redemption at the Option of the Issuer

If so provided hereon, the Issuer may, on giving irrevocable notice to the Noteholders falling within the Issuer's Redemption Option Period shown on the face hereof, redeem all or, if so provided, some of the Notes at their Redemption Amount or integral multiples thereof and on the date or dates so provided. Any such redemption of Notes shall be at their Redemption Amount, together with interest accrued to the date fixed for redemption.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption of the Notes, the notice to Noteholders shall also contain the certificate numbers of the Notes to be redeemed, which shall have been drawn by or on behalf of the Issuer in such place and in such manner as may be agreed between the Issuer and the Trustee, subject to compliance with any applicable laws. So long as the Notes are listed on the Singapore Exchange Securities Trading Limited, the Issuer shall comply with the rules of such Stock Exchange in relation to the publication of any redemption of such Notes.

(e) Redemption at the Option of Noteholders

If so provided hereon, the Issuer shall, at the option of the holder of any Note, redeem such Note on the date or dates so provided at its Redemption Amount, together with interest accrued to the date fixed for redemption. To exercise such option, the holder must deposit such Note (together with all unmatured Coupons) with the Issuing and Paying Agent at its specified office, together with a duly completed option exercise notice in the form obtainable from the Issuing and Paying Agent or the Issuer (as applicable) within the Noteholders' Redemption Option Period shown on the face hereof. Any Note so deposited may not be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) Redemption for Taxation Reasons

If so provided hereon, the Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified hereon, at any time on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Redemption Amount or (in the case of Zero Coupon Notes) Early Redemption Amount (as defined in Condition 5(h) below) (together with interest accrued to (but excluding) the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7, or increase the payment of such additional amounts, as a result of any change in, or amendment to, the laws (or any regulations, rulings or other administrative pronouncements promulgated thereunder) of Singapore or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, regulations, rulings or other administrative pronouncements, which change or amendment is made public on or after the Issue Date or any other date specified in the Pricing Supplement, and (ii) such obligations cannot be avoided by the Issuer 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 Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Issuing and Paying Agent a certificate signed by a duly authorised officer of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or is likely to become obliged to pay such additional amounts as a result of such change or amendment.

(g) Purchases

The Issuer or any of its related corporations may at any time purchase Notes at any price (provided that they are purchased together with all unmatured Coupons relating to them) in the open market or otherwise, provided that in any such case such purchase or purchases is in compliance with all relevant laws, regulations and directives.

Notes purchased by the Issuer or any of its related corporations may be surrendered by the purchaser through the Issuer to the Issuing and Paying Agent for cancellation or may at the option of the Issuer or relevant subsidiary be held or resold.

For the purposes of these Conditions, "**directive**" includes any present or future directive, regulation, request, requirement, rule or credit restraint programme of any relevant agency, authority, central bank department, government, legislative, minister, ministry, official public or statutory corporation, self-regulating organisation, or stock exchange.

(h) Early Redemption of Zero Coupon Notes

- (i) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or formula, upon redemption of such Note pursuant to Condition 5(f) or upon it becoming due and payable as provided in Condition 9, shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (ii) Subject to the provisions of sub-paragraph (iii) below, the Amortised Face Amount of any such Note shall be the scheduled Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (iii) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 5(f) or upon it becoming due and payable as provided in Condition 9 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (ii) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph will continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Redemption Amount of such Note on the Maturity Date together with any interest which may accrue in accordance with Condition 4(IV).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown on the face of the Note.

(i) Cancellation

All Notes purchased by or on behalf of the Issuer or any of its related corporations may be surrendered for cancellation by surrendering each such Note together with all unmatured Coupons to the Issuing and Paying Agent at its specified office and, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold.

6. Payments

(a) Principal and Interest

Payments of principal and interest in respect of the Notes will, subject as mentioned below, be made against presentation and surrender of the relevant Notes or Coupons, as the case may be, at the specified office of the Issuing and Paying Agent by a cheque drawn in the currency in which payment is due on, or, at the option of the holders, by transfer to an account maintained by the payee in that currency with, a bank in the principal financial centre for that currency.

(b) Payments subject to law etc.

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 7. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(c) Appointment of Agents

The Issuing and Paying Agent and its specified office are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of the Issuing and Paying Agent and to appoint additional or other Issuing and Paying Agents, provided that it will at all times maintain an Issuing and Paying Agent having a specified office in Singapore.

Notice of any such change or any change of any specified office will promptly be given to the Noteholders in accordance with Condition 15.

The Agency Agreement may be amended by the Issuer, the Issuing and Paying Agent and the Trustee, without the consent of any holder, for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective provision contained therein or in any manner which the Issuer, the Issuing and Paying Agent and the Trustee may mutually deem necessary or desirable and which does not, in the reasonable opinion of the Issuer, the Issuing and Paying Agent and the Trustee, adversely affect the interests of the holders.

(d) Unmatured Coupons

- (i) Fixed Rate Notes and Hybrid Notes should be surrendered for payment together with all unmaturing Coupons (if any) relating to such Notes (and, in the case of Hybrid Notes, relating to interest payable during the Fixed Rate Period), failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing Coupon which the sum of principal so paid bears to the total principal due) will be deducted from the Redemption Amount due for payment. Any amount so deducted will be paid in the manner mentioned above against surrender of such missing Coupon within a period of three years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 8).
- (ii) Subject to the provisions of the relevant Pricing Supplement upon the due date for redemption of any Floating Rate Note, Variable Rate Note or Hybrid Note, unmaturing Coupons relating to such Note (and, in the case of Hybrid Notes, relating to interest payable during the Floating Rate Period) (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Where any Floating Rate Note, Variable Rate Note or Hybrid Note is presented for redemption without all unmaturing Coupons relating to it (and, in the case of Hybrid Notes, relating to interest payable during the Floating Rate Period), redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iv) If the due date for redemption or repayment of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Note.

(e) Non-business days

Subject as provided in the relevant Pricing Supplement or subject as otherwise provided in these Conditions, if any date for the payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay.

(f) Default Interest

If on or after the due date for payment of any sum in respect of the Notes, payment of all or any part of such sum is not made against due presentation of the Notes or, as the case may be, the Coupons, the Issuer shall pay interest on the amount so unpaid from such due date up to the day of actual receipt by the relevant Noteholders or, as the case may be, Couponholders (as well after as before judgment) at a rate per annum determined by the Issuing and Paying Agent to be equal to one per cent. per annum above (in the case of a Fixed Rate Note or a Hybrid Note during the Fixed Rate Period) the Interest Rate applicable to such Note, (in the case of a Floating Rate Note or a Hybrid Note during the Floating Rate Period) the Rate of Interest applicable to such Note or (in the case of a Variable Rate Note) the variable rate by which the Agreed Yield applicable to such Note is determined or, as the case may be, the Rate of Interest applicable to such Note, or in the case of a Zero Coupon Note, as provided for in the relevant Pricing Supplement. So long as the default continues then such rate shall be re-calculated on the same basis at intervals of such duration as the Issuing and Paying Agent may select, save that the amount of unpaid interest at the above rate accruing during the preceding such period shall be added to the amount in respect of

which the Issuer is in default and itself bear interest accordingly. Interest at the rate(s) determined in accordance with this paragraph shall be calculated on the Day Count Fraction shown on the face of the Note and the actual number of days elapsed, shall accrue on a daily basis and shall be immediately due and payable by the Issuer.

7. Taxation

All payments in respect of the Notes and the Coupons by the Issuer shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Singapore or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such deduction or withholding been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

- (a) by or on behalf of a holder who is subject to such taxes, duties, assessments or governmental charges by reason of his being connected with Singapore otherwise than by reason only of the holding of such Note or Coupon or the receipt of any sums due in respect of such Note or Coupon (including, without limitation, the holder being a resident of, or a permanent establishment in, Singapore); or
- (b) more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days.

As used in these Conditions, “**Relevant Date**” in respect of any Note or Coupon means the date on which payment in respect thereof first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date falling seven days after that on which notice is duly given to the Noteholders in accordance with Condition 15 that, upon further presentation of the Note or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon presentation, and references to “**principal**” shall be deemed to include any premium payable in respect of the Notes, all Redemption Amounts, Early Redemption Amounts and all other amounts in the nature of principal payable pursuant to Condition 5, “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 4 and any reference to “**principal**” and/or “**premium**” and/or “**Redemption Amounts**” and/or “**interest**” and/or “**Early Redemption Amounts**” shall be deemed to include any additional amounts which may be payable under these Conditions.

8. Prescription

The Notes and Coupons shall become void unless presented for payment within three years from the appropriate Relevant Date for payment.

9. Events of Default

If any of the following events (“**Events of Default**”) occurs the Trustee at its discretion may, and if so requested by holders of at least 25 per cent. in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, give notice to the Issuer that the Notes are immediately repayable, whereupon the Redemption Amount of such Notes or (in the case of Zero Coupon Notes) the Early Redemption Amount of such Notes together with accrued interest to the date of payment shall become immediately due and payable:

- (a) the Issuer does not pay the principal of, or Redemption Amount (whether becoming due upon redemption or otherwise) or (in the case of Zero Coupon Notes) the Early Redemption Amount on any Notes of any Series when due and such default continues for seven business days or the Issuer does not pay the interest on any Notes of any series when due and such default continues for seven business days;

- (b) the Issuer does not perform or comply with any one or more of its obligations (other than the payment obligation of the Issuer referred to in paragraph (a)) under any of the Issue Documents or any of the Notes and, if in the opinion of the Trustee that default is capable of remedy, it is not in the opinion of the Trustee remedied within 30 days of its occurrence;
- (c) any representation, warranty or statement by the Issuer in any of the Issue Documents or any of the Notes or in any document delivered under any of the Issue Documents or any of the Notes is not complied with in any respect or is or proves to have been incorrect in any respect when made or deemed repeated and, if in the opinion of the Trustee, the event resulting in that default is capable of remedy, it is not in the opinion of the Trustee remedied within 30 days of its occurrence;
- (d)
 - (i) any other indebtedness of the Issuer or any of its subsidiaries in respect of borrowed money is or is declared to be or is capable of being rendered due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (however described) or is not paid when due or, as the case may be, within any original applicable grace period in any agreement relating to that indebtedness; or
 - (ii) the Issuer or any of its subsidiaries fails to pay when properly called upon to do so any guarantee of indebtedness for borrowed moneys.

However, no Event of Default will occur under this paragraph (d)(i) or (ii) unless and until the aggregate amount of the indebtedness in respect of which one or more of the events mentioned above in this paragraph (d) has or have occurred equals or exceeds S\$20,000,000 or its equivalent in other currency or currencies (as determined by the Trustee);

- (e) the Issuer or any of its Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent 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 indebtedness, begins negotiations or takes any other step with a view to the deferral, rescheduling or other readjustment of all or a material part of (or of a particular type of) its indebtedness (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors or a moratorium is agreed or declared in respect of or affecting all or a material part of (or of a particular type of) the indebtedness of the Issuer or any of its Principal Subsidiaries;
- (f) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or a material part of the property, assets or revenues of the Issuer or any of its Principal Subsidiaries and is not discharged or stayed within 30 days of its occurrence;
- (g) any security on or over the whole or any material part of the assets of the Issuer or any of its Principal Subsidiaries becomes enforceable or any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person);
- (h) any step is taken by any person with a view to the winding-up of the Issuer or any of its Principal Subsidiaries or for the appointment of a liquidator (including a provisional liquidator), receiver, judicial manager, trustee, administrator, agent or similar officer of the Issuer or any of its Principal Subsidiaries or over the whole or any part of the assets of the Issuer or any of its Principal Subsidiaries;
- (i) the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or a material part of its business or (otherwise than in the ordinary course of its business) disposes or threatens to dispose of the whole or a material part of its property or assets, save as otherwise permitted by Clause 15.30 of the Trust Deed;
- (j) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or any of its Principal Subsidiaries and such seizure, compulsory acquisition, expropriation or nationalisation has or is likely to have a material adverse effect on the Issuer;

- (k) any action, condition or thing (including the obtaining of any necessary consent) at any time required to be taken, fulfilled or done for any of the purposes stated in Clause 14.3 of the Trust Deed is not taken, fulfilled or done, or any such consent ceases to be in full force and effect without modification or any condition in or relating to any such consent is not complied with (unless that consent or condition is no longer required or applicable);
- (l) it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Issue Documents or any of the Notes;
- (m) any of the Issue Documents or any of the Notes ceases for any reason (or is claimed by the Issuer not) to be the legal and valid obligations of the Issuer, binding upon it in accordance with its terms;
- (n) any litigation, arbitration or administrative proceeding against the Issuer or any of its Principal Subsidiaries is current or pending (other than those of a frivolous or vexatious nature and discharged within 30 days) (i) to restrain the exercise of any of the rights and/or the performance or enforcement of or compliance with any of the obligations of the Issuer under any of the Issue Documents or any of the Notes or (ii) which has or could have a material adverse effect on the Issuer;
- (o) any event occurs which, under the law of any relevant jurisdiction, has an analogous or equivalent effect to any of the events mentioned in paragraph (e), (f), (g), (h) or (j); and
- (p) the Issuer or any of its Principal Subsidiaries is declared by the Minister of Finance to be a declared company under the provisions of Part IX of the Companies Act, Chapter 50 of Singapore.

In these Conditions:

- (1) **“Principal Subsidiaries”** means any subsidiary of the Issuer:
 - (aa) whose revenue, as shown by the accounts of such subsidiary (consolidated in the case of a company which itself has subsidiaries), based upon which the latest audited consolidated accounts of the Group have been prepared, are at least 20 per cent. of the revenue of the Group as shown by such audited consolidated accounts; or
 - (bb) whose total assets, as shown by the accounts of such subsidiary (consolidated in the case of a company which itself has subsidiaries), based upon which the latest audited consolidated accounts of the Group have been prepared, is at least 20 per cent. of the total assets of the Group as shown by such audited consolidated accounts,

provided that if any such subsidiary (the **“transferor”**) shall at any time transfer the whole or a part of its business, undertaking or assets to another subsidiary or the Issuer (the **“transferee”**) then:

- (I) if the whole of the business, undertaking and assets of the transferor shall be so transferred, the transferor shall thereupon cease to be a Principal Subsidiary and the transferee (unless it is the Issuer) shall thereupon become a Principal Subsidiary; and
- (II) if part only of the business, undertaking and assets of the transferor shall be so transferred, the transferor shall remain a Principal Subsidiary and the transferee (unless it is the Issuer) shall thereupon become a Principal Subsidiary.

Any subsidiary which becomes a Principal Subsidiary by virtue of (I) above or which remains or becomes a Principal Subsidiary by virtue of (II) above shall continue to be a Principal Subsidiary until the date of issue of the first audited consolidated accounts of the Group prepared as at a date later than the date of the relevant transfer which show the revenue or, as the case may be, total assets of such subsidiary, as shown by the accounts (consolidated in the case of a company which itself has subsidiaries) of such subsidiary, based upon which such audited consolidated accounts have been prepared, to be less than 20 per cent. of the

revenue or, as the case may be, the total assets of the Group, as shown by such audited consolidated accounts. A report by the Auditors of the Issuer, who shall also be responsible for producing any pro-forma accounts required for the above purposes, that in their opinion a subsidiary is or is not a Principal Subsidiary shall, in the absence of manifest or proven error, be conclusive; and

- (2) “**subsidiary**” has the meaning ascribed to it in Section 5 of the Companies Act, Chapter 50 of Singapore.

10. Enforcement of Rights

At any time after the Notes shall have become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce repayment of the Notes, together with accrued interest, but it shall not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by Noteholders holding not less than 25 per cent. in principal amount of the Notes outstanding and (b) it shall have been indemnified by the Noteholders to its satisfaction. No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound to do so, fails or neglects to do so within a reasonable period and such failure or neglect shall be continuing.

11. Meeting of Noteholders and Modifications

The Trust Deed contains provisions for convening meetings of Noteholders of a Series to consider any matter affecting their interests, including modification by Extraordinary Resolution of the Notes of such Series (including these Conditions insofar as the same may apply to such Notes) or any of the provisions of the Trust Deed.

The Trustee or the Issuer at any time may, and the Trustee upon the request in writing by Noteholders holding not less than one-tenth of the principal amount of the Notes of any Series for the time being outstanding shall, convene a meeting of the Noteholders of that Series. An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders of the relevant Series, whether present or not and on all relevant Couponholders, except that any Extraordinary Resolution proposed, *inter alia*, (a) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes, (b) to reduce or cancel the principal amount of, or any premium payable on redemption of, the Notes, (c) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates of interest or the basis for calculating any Interest Amount in respect of the Notes, (d) to vary any method of, or basis for, calculating the Redemption Amount or the Early Redemption Amount including the method of calculating the Amortised Face Amount, (e) to vary the currency or currencies of payment or denomination of the Notes, (f) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply or (g) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, will only be binding if passed at a meeting of the Noteholders of the relevant Series (or at any adjournment thereof) at which a special quorum (provided for in the Trust Deed) is present.

The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest or proven error or to comply with mandatory provisions of Singapore law or is required by Euroclear and/or Clearstream, Luxembourg and/or the Depository and/or any other clearing system in which the Notes may be held and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, waiver, authorisation or substitution) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders.

These Conditions may be amended, modified, or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

12. Replacement of Notes and Coupons

If a Note or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws, at the specified office of the Issuing and Paying Agent, or at the specified office of such other Issuing and Paying Agent as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders in accordance with Condition 15, on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note or Coupon is subsequently presented for payment, there will be paid to the Issuer on demand the amount payable by the Issuer in respect of such Note or Coupon) and otherwise as the Issuer may require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

13. Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes of any Series and so that the same shall be consolidated and form a single Series with such Notes, and references in these Conditions to “Notes” shall be construed accordingly.

14. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified to its satisfaction. The Trust Deed also contains a provision entitling the Trustee to enter into business transactions with the Issuer or any of its subsidiaries without accounting to the Noteholders or Couponholders for any profit resulting from such transactions.

15. Notices

Notices to the holders will be valid if published in a daily newspaper of general circulation in Singapore (or, if the holders of any Series of Notes can be identified, notices to such holders will also be valid if they are given to each of such holders). It is expected that such publication will be made in the Business Times. Notices will, if published more than once or on different dates, be deemed to have been given on the date of the first publication in such newspaper as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice to the holders in accordance with this Condition 15.

Until such time as any Definitive Notes (as defined in the Trust Deed) are issued, there may, so long as the Global Note(s) is or are held in its or their entirety on behalf of Euroclear, Clearstream, Luxembourg and/or the Depository, be substituted for such publication in such newspapers the delivery of the relevant notice to Euroclear, Clearstream, Luxembourg and/or the Depository for communication by it to the Noteholders, except that if the Notes are listed on the Singapore Exchange Securities Trading Limited and the rules of such exchange so require, notice will in any event be published in accordance with the previous paragraph. Any such notice shall be deemed to have been given to the Noteholders on the seventh day after the day on which the said notice was given to Euroclear, Clearstream, Luxembourg and/or the Depository.

Notices to be given by any Noteholder pursuant hereto (including to the Issuer) shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Issuing and Paying Agent. Whilst the Notes are represented by a Global Note, such notice may be given by

any Noteholder to the Issuing and Paying Agent through Euroclear, Clearstream, Luxembourg and/or the Depository in such manner as the Issuing and Paying Agent and Euroclear, Clearstream, Luxembourg and/or the Depository may approve for this purpose.

Notwithstanding the other provisions of this Condition, in any case where the identity and addresses of all the Noteholders are known to the Issuer, notices to such holders may be given individually by recorded delivery mail to such addresses and will be deemed to have been given when received at such addresses.

16. Governing Law

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

17. Contracts (Rights of Third Parties) Act

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore.

THE ISSUER

1 INTRODUCTION

1.1 Background

Founded in 1989 as Hydrochem (S) Pte Ltd, a small water treatment company with a start-up capital of S\$20,000 and three staff, Hyflux has become one of the world's fastest-growing technology-driven water solutions companies. Its key markets include Southeast Asia, the PRC, India and the Middle East and North Africa ("**MENA**") region.

Hyflux was the first water treatment company to be listed on the Mainboard of the SGX-ST. The initial market capitalisation of Hyflux was approximately S\$50 million. It was later named as an index stock of the Straits Times Index in March 2005. In January 2008, Hyflux was designated as one of the component stocks under the Financial Times Stock Exchange, FTSE ST Mid Cap Index. As at the Latest Practicable Date, Hyflux has a market capitalisation of approximately S\$1.8 billion.

Hyflux's strengths lie in the development of cutting-edge technologies, its proven technical capabilities and ability to deliver fully integrated solutions, as well as its track record of successful execution of mega-scale projects. This forms the basis of its solid foundation built over the last 20 years. Leveraging on its foundation, human capital and strategic partnerships, Hyflux is well-positioned to capitalise on the opportunities present in the global water industry.

Hyflux provides a comprehensive suite of integrated services in water to suit the myriad needs of its clients, from Research and Development ("**R&D**"), membrane manufacturing, membrane and system sales, process engineering, turnkey project management, Engineering, Procurement and Construction ("**EPC**"), Operations and Maintenance ("**O&M**") of water plants, to investment in water and infrastructure projects.

Hyflux's water business provides solutions in:

- Seawater desalination
- Water recycling
- Wastewater treatment and membrane bioreactor technology
- Potable water treatment

Hyflux's track record includes Singapore's first water recycling plant and seawater reverse osmosis ("**SWRO**") desalination plant and the PRC's largest SWRO desalination plant in the Dagang district, Tianjin province, the PRC. Hyflux is also building the world's largest SWRO desalination plant in Magtaa, Algeria.

Leveraging on its cutting edge water filtration and purification technologies, Hyflux has developed its own brand of innovative lifestyle products to create cleaner and better-tasting water for the residential market.

To date, Hyflux's membranes and systems have been installed in more than 1,000 plants in over 400 locations across the globe. With more than 2,000 staff worldwide, a proven track record and the ability to draw on its comprehensive capabilities across the entire value chain, Hyflux is positioned to deliver the most effective and efficient solutions to meet the needs of its clients.

1.2 Industry Outlook

Accessible, reliable and sustainable water supplies remain a key global challenge. Population growth and economic development have resulted in many regions of the world coming under increasing water stress. With the mounting water scarcity, there is a growing appreciation that resources have to be better managed for a secure water future. This has turned the focus to water policy reform, water efficiency measures and solutions such as desalination and water recycling to augment or meet water supply requirements.

As one of the few global companies with a presence throughout the entire water value chain and a strong track record, Hyflux is well-positioned to harness the business opportunities that the global water situation presents with its cost-effective and environmentally responsible solutions in desalination, water recycling, wastewater and potable water treatment.

1.3 Company Major Milestones

After more than 20 years, Hyflux has accumulated a number of key milestones, including landmark project wins, acquisitions, industry firsts and world records. The following are significant dates in Hyflux's history.

Year	Significant Event
Year 2011	
Jul	<ol style="list-style-type: none"> 1. Hyflux secured funds of S\$150 million to build Singapore's second and largest SWRO desalination plant. 2. Public Utilities Board ("PUB") and Hyflux marked the ground-breaking for Singapore's second and largest SWRO desalination plant.
Apr	<ol style="list-style-type: none"> 1. Hyflux signed a water purchase agreement with PUB to design, build, own and operate Singapore's second and largest SWRO desalination plant in Tuas for a concession period of 25 years. 2. Hyflux issued S\$400 million in aggregate liquidation preference of cumulative non-convertible non-voting perpetual Class A Preference Shares.
Mar	Hyflux signed a Memorandum of Understanding (" MOU ") with Japan's Mizuho Corporate Bank to collaborate on global water business development and explore various financing structures for water projects.
Feb	Hyflux was awarded a concession to develop a wastewater treatment plant for Zunyi City in north Guizhou province, the PRC.
Jan	Hyflux signed three concession agreements with the People's Government of Chongqing City, Hechuan District, the PRC, to develop three water projects at the Hechuan Industrial Park in Chongqing City, the PRC.
Year 2010	
Dec	<ol style="list-style-type: none"> 1. The joint venture ("JV") – Galaxy Newspring Pte Ltd ("Galaxy") – set up by Hyflux and Mitsui & Co., Ltd ("Mitsui") to capture growth opportunities in the PRC's water sector, successfully completed its compulsory acquisition and delisting of Hyflux Water Trust ("HWT"). 2. Hyflux launched Hyfluxshop, Asia's first online store dedicated to a wide range of quality industrial products and systems for the water industry.
Jun	Hyflux launched its new generation of ultrafiltration (" UF ") membranes, the Kristal 2000, and the Membrane Evaluation System for hollow fibre membranes at the Singapore International Water Week.
Mar	Hyflux was awarded the EPC contract by TP Utilities Pte Ltd for stage one of the Tembusu Seawater Desalination Plant on Jurong Island, Singapore.
Feb	Hyflux was awarded the contract by PUB to design, construct, test and commission the largest membrane bioreactor (" MBR ") plant at Jurong Water Reclamation Plant.

Year	Significant Event
Year 2009	
Dec	Hyflux signed a JV agreement with JGC Corporation of Japan (“ JGC ”) to jointly develop green field projects in the PRC.
Nov	<ol style="list-style-type: none"> 1. Hyflux signed a Strategic Cooperation Agreement with The Bank of Jiangsu, where the Bank of Jiangsu will actively support and provide financial services to Hyflux’s associated companies in the PRC, especially in the Jiangsu province. 2. Hyflux also secured a contract to design and supply a desalination facility for the Salah Independent Water and Power Project (“IWPP”) in Oman. 3. Hyflux celebrated its 20th anniversary and announced expansion plans and investments for its global headquarters to be named “Hyflux Innovation Centre” and a new membrane manufacturing facility to be called “Hyflux Production Hub”.
Aug	Hyflux signed an MOU for global collaboration on water projects with Japan Bank for International Cooperation (“ JBIC ”).
Year 2008	
Apr	Hyflux won the bid to build world’s largest SWRO desalination plant at Magtaa, Algeria.
Year 2007	
Nov	Hyflux launched HWT, the first pure-play global water business trust to be listed in Asia.
Jan	Hyflux teamed with Marmon Water LLC to establish JVs, licensing agreements on water treatment products.
Year 2006	
Oct	Hyflux clinched deal to build SWRO desalination plant at Tlemcen, Algeria.
Aug	Hyflux entered the Indian water market and built a high grade industrial water plant in Bangalore.
Apr	Hyflux acquired CEPAration B.V. of Netherlands and invested in the development of cutting-edge ceramic hollow fiber membranes.
Year 2005	
Mar	Hyflux stock upgraded from SGX-ST Mainboard to the Straits Times Index, where it is listed as an index stock.
Year 2004	
Dec	Hyflux entered the Middle East market.
Nov	Hyflux unveiled groundbreaking Membrane Technology R&D Centre, the largest of its kind in Asia outside of Japan.
Jul	Hyflux signed an MOU with the PRC National Environmental Protection Corporation to jointly invest in and develop municipal and water treatment facilities.
Jun	Hyflux clinched deal to build the PRC’s largest SWRO desalination plant in Tianjin province, the PRC.

Year	Significant Event
Year 2003	
Oct	Hyflux collaborated with Nanyang Technological University in water treatment research using membrane technology.
Apr	Hyflux stock upgraded to SGX-ST Mainboard listing.
Jan	Hyflux won the bid to build Singapore's first seawater desalination plant using reverse osmosis ("RO") membrane technology. The tender was also Singapore's first public-private-partnership project.
Year 2002	
Dec	Hyflux clinched deal to design and construct Seletar NEWater plant in Singapore.
Nov	Smart Investor named Hyflux "Most Admired SESDAQ Company".
Sep	Hyflux announced contract win to supply the entire membrane filtration system for potable water treatment works at Chestnut Avenue Waterworks, Singapore.
May	Hyflux attained ISO 9001:2000 certification.
Year 2001	
Dec	Hyflux was awarded maiden municipal contract to supply and install process equipment for high grade water reclamation (NEWater) plant at Bedok, Singapore.
Jan	Hyflux listed on SGX-ST (Sesdaq).
Year 1999 and before	
1999	Hyflux commenced manufacturing of its proprietary membranes.
1997	Hyflux built first water recycling plant in Singapore for the Jurong Bird Park.
1994	Hyflux entered the PRC market.
1989	Olivia Lum founded Hydrochem (S) Pte Ltd, a water treatment system supplier serving the Singapore, Malaysia and Indonesia market.

2 AWARDS AND ACCOLADES

Hyflux has been honoured with numerous awards and accolades for business excellence and technological innovation.

In 2010:

- Frost and Sullivan – "Water Technology Company of the Year Award 2010"
- Global Water Intelligence U.K. Distinction Awards – "Desalination Company of the Year"
- Global Water Intelligence U.K. Commendation Awards – "Desalination Deal of the Year"
- Global Water Intelligence U.K. Commendation Awards – "Desalination Plant of the Year"

In 2009:

- Asiamoney – "Medium-Cap Corporate of the Year"

In 2008:

- SIAS Investors' Choice Awards – "Most Transparent Company Award 2008"
- Global Water Intelligence U.K. – "Highly Commended - Water Deal of the Year: Hyflux Water Trust IPO"

In 2007:

- Frost and Sullivan – “Technology Innovation of the Year Award 2007, Desalination Technologies (Asia Pacific)”
- Frost and Sullivan – “Technology Innovation of the Year Award 2007, Residential Water Treatment Equipment Market (Southeast Asia)”
- SIAS Investors’ Choice Awards – “Most Transparent Company Award 2007”

In 2006:

- Global Water Intelligence U.K. Awards – “Water Company of the Year”
- Global Water Intelligence U.K. Distinction Awards – “Desalination Plant of the Year: Tuas, Singapore”
- Forbes Asia – “Best Under a Billion Company” for 2006
- International Aquatech Innovation Awards 2006 – “Water treatment/Point of use Category Winner”
- SIAS Investors’ Choice Awards – “Most Transparent Company Award 2006”

In 2005:

- Forbes Asia – “Best Under a Billion Company” for 2005
- Global Water Intelligence U.K. – “Highly Commended - Water Project of the Year: Seletar NEWater plant” and “Highly Commended - Wastewater Project of the Year: Chestnut Avenue Waterworks”
- Fastest Growing 50 – “Fastest Growing 50 Certification Awards 2005”
- SIAS Investors’ Choice Awards – “Most Transparent Company Award 2005”

In 2004:

- SIAS Investors’ Choice Awards – “Most Transparent Company Award 2004”

In 2003:

- Euromoney – “Water Deal of the Year 2003 (Asia Pacific)”
- Singapore Business Awards – “Enterprise Award 2003”

3 BUSINESS STRATEGY

At Hyflux, innovation extends beyond its laboratories to every aspect of its business and operations – from membrane development to EPC and O&M execution to asset management. Hyflux’s spirit of innovation and entrepreneurship drives its technological advancements in membranes, commercialisation of applications, project management and O&M. Hyflux differentiates itself from its competitors by providing a full spectrum of water treatment-related services and offering a one-stop solution to its clients through the following business strategies:

3.1 Maintaining its leadership position in membrane-based technology through R&D and process evaluation

R&D is the core of Hyflux’s business strategy. The underlying aim of developing the most cost-effective and versatile membrane systems that can be used in a wide variety of environmental and water applications drives its technological advances and innovation.

Supported by a team of 200 multidisciplinary membrane specialists, researchers and scientists in its network of innovation centres in Singapore, the PRC and The Netherlands, Hyflux continues to push for new membrane applications, products and systems. At the same time, it also keeps its knowledge base up-to-date through linkages and collaborations with internationally recognised research experts, reputable universities and renowned research institutions worldwide.

Backed by its Membrane Technology R&D Centre in Singapore, the largest in Asia outside of Japan, Hyflux ensures that the development of cutting-edge technologies remains as its key driver to spearhead sustainable growth for Hyflux.

Through its in-house research or collaboration with reputable institutions worldwide, Hyflux leverages on its membrane technologies to develop a comprehensive range of membrane products and membrane systems to provide an environmentally-friendly solution to a wide range of applications in water treatment and industrial manufacturing processing. Hyflux's dedicated, multi-disciplinary team of experts works closely with its clients around the world, who are facing challenges from waste treatment to product recovery. Its researchers evaluate the economics and science of its clients' process efficiencies and the suitability of introducing its membrane technologies into their processes.

Hyflux's outstanding performance in R&D has been widely recognised. In 2006, Hyflux was awarded the Water Company of the Year at the Global Water Awards, by the GWI, United Kingdom. In addition, Hyflux was twice listed as Forbes Asia's Best Under a Billion Company in 2005 and 2006 consecutively.

More recently in 2010, Hyflux received a Distinction Award for Desalination Company of the Year at the Global Water Awards, by GWI, United Kingdom. Hyflux also received the Water Technology Company of the Year Award 2010 from Frost and Sullivan.

3.2 Raising the bar with its technology

At the heart of Hyflux's innovation initiatives is the development of membrane technologies to further enhance its technological and engineering processes as well to introduce breakthrough applications that will propel Hyflux to the forefront of the technology league, hence strengthening its competitive advantage.

Its flagship Kristal® membranes are already installed in several of its landmark desalination and water recycling projects and will increasingly be applied to water recycling industry-wide. In addition, MBR systems which make use of a combination of biological processes and membranes to treat and recycle wastewater are expected to surpass the conventional methods of wastewater treatment due to economic, environmental and operational benefits. Hyflux's win in February 2010 to design and construct Singapore's largest MBR plant will establish its track record in the development of MBRs, while enabling it to capture opportunities for such upscaled water recycling projects particularly in the PRC, India and the MENA region.

Hyflux will continue to invest heavily in innovation and in high value-added membrane manufacturing processes. Over the next two years, Hyflux will develop a new Hyflux Innovation Centre which will house its corporate office complete with an expanded design, innovation and commercialisation facilities. It is also developing the Hyflux Production Hub, its new membrane manufacturing facility in Singapore.

3.3 Developing, financing and structuring of assets

As a single one stop provider of a comprehensive suite of services for water assets, Hyflux is not only competent technically but also has the capability to originate and develop assets. Hyflux works very closely with its partners and financing institutions to finance these assets, through optimised structures that meets both its asset light business model, as well as the return requirements of its partners. The listing of HWT and formation of Galaxy with its partner Mitsui are examples of the structuring capability of Hyflux.

3.4 Design & development and system assembly

Hyflux has continuously built a core team that spearheads the upscaling of its separation solutions to a commercial level to excel in the global arena. Such efforts entail the development of a pilot plant, skid design, construction and testing either shipped on-site to its clients' premises or conducted in its laboratories at the clients' requests.

Having designed and installed over 1,000 plants in over 400 locations across the globe, Hyflux's dedicated team of environmental specialists will be able to advise and evaluate all aspects of the system process together with its clients. Hyflux's expertise includes process design and optimisation, electrical and instrumentation control, conducting concept/feasibility studies, risk management, performing audits and conducting performance guarantee tests for water treatment facilities at site. As part of the suite of services, Hyflux is also able to construct

pilot plants and conduct trials for its clients to check suitability of membrane types and system configuration in any specified application before actual installation. Hyflux's pilot plants are designed to be highly portable for instant on-site tests.

After the design and development phase, the team will begin assembling the systems to the specified requirements. The specialised components, including Hyflux's proprietary Kristal® UF membranes, are manufactured in-house, to ensure that these meet the specifications of the order, while the more generic components will be purchased from third-party suppliers. The benefit of an in-house systems assembly process is that it enables Hyflux to guarantee quality and on-time delivery. Hyflux's system assembly and production facilities are ISO certified and located in Singapore and Yangzhou, the PRC.

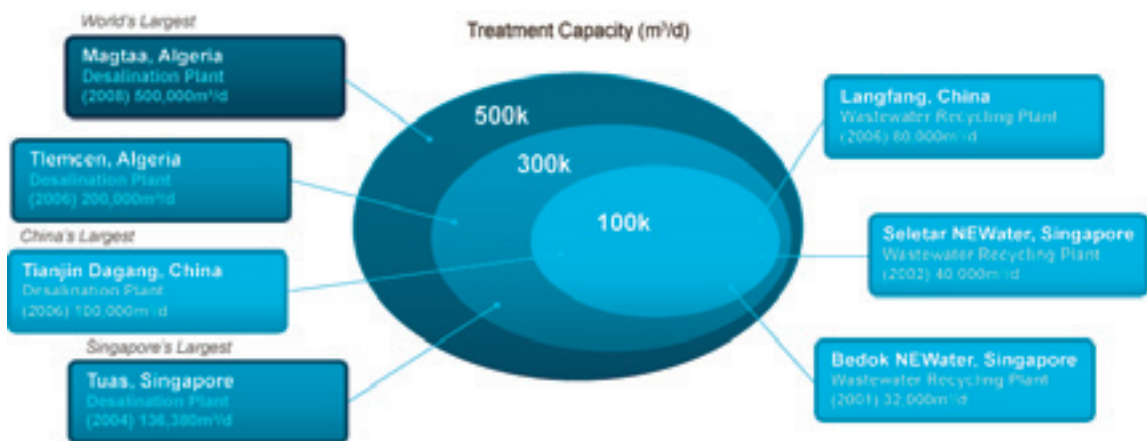
3.5 Overall project management

Having built over 40 large scale plants in the PRC, Singapore and Algeria, Hyflux's project management team has the experience and the expertise in defining, planning, implementing and integrating every aspect of a client's comprehensive programme while ensuring that deadlines, costs, quality and safety are met.

Hyflux's team of professional designers, engineers, procurement specialists and construction managers are dedicated in delivering its major turnkey projects on time and on budget. As a testimony to its desalination leadership, Hyflux is building:

- the world's largest SWRO desalination plant (500,000m³/day) in Magtaa, Algeria; and
- the PRC's largest SWRO desalination plant (150,000m³/day) in Dagang district, Tianjin province, the PRC.

Hyflux has also built the SingSpring Desalination Plant (136,380m³/day), located in Tuas, Singapore, which is Singapore's first, and an award-winning, seawater desalination plant.



3.6 Plant operation and maintenance

Having built and operated numerous plants either on behalf of its clients or as part of its own portfolio, Hyflux has amassed years of experience operating and maintaining commercial plants of various sizes. Today, its SingSpring Desalination Plant is one of the most efficient plants in the world.

Hyflux leverages on its team of multi-disciplinary experts comprising industry veterans to manage these largely membrane-based commercial plants. Hyflux is dedicated to provide for its clients the support they need in ensuring the smooth operation of their plants.

3.7 Retrofitting

Hyflux understands that not all its industry partners started their plant operations with the most advanced membranes already installed. Through the years, Hyflux has acquired a wealth of knowledge and experience of the various types of separation processes from distillation to centrifuges and the challenges that come with them.

Providing design and retrofitting advice to upgrade its clients' existing operations with the latest membrane technology has therefore become part and parcel of Hyflux's work.

3.8 Deepening its presence in growth markets

In 2001, Hyflux had only two main markets, Singapore and the PRC – but has since expanded into Southeast Asia, India and the MENA region. Hyflux will increase its focus on Asia, in particular the PRC, to balance its growth strategy.

Hyflux has established a solid presence in the MENA region. The MENA region was the major contributor to its revenue in FY2009 with two large-scale desalination projects in Tlemcen and Magtaa, Algeria. The former has been completed and started operations in April 2011, while the latter has crossed the three-quarter mark on construction. The award of the S\$95 million design and construct contract for a membrane-based seawater desalination facility for the Salalah IWPP in Oman launched its entry both into a new geographical market and into the IWPP vertical. This project will lay the foundation for Hyflux to improve its penetration in the MENA region, and will position Hyflux for new IWPPs and for the retrofitting of aging thermal desalination plants with membrane technology for more efficient and optimal operations.

In addition to the PRC and the MENA region, Hyflux will continue its push into India and Southeast Asia where access to clean safe water for consumption becomes more pressing by the day. Hyflux's home market, Singapore, offers exciting opportunities for water reclamation, recycling and desalination from both the public and private sectors as the country seeks self-sufficiency for its water needs. In the first quarter of 2010, Hyflux clinched two EPC projects in Singapore – an MBR plant for PUB and the first stage of a 182,000m³/day desalination project on Jurong Island for TP Utilities Pte Ltd, a wholly-owned unit of Tuas Power Ltd.

3.9 Asset management and strategic partnerships

The asset management approach taken by Hyflux has enabled it to strengthen its competitive position in the global market place. This is accomplished by unlocking the intrinsic value of its water assets to ensure optimal capital structure and to provide the financial flexibility for long-term business growth. Forming partnerships to accelerate capital growth is also part of this growth strategy.

These include collaborations formed with JBIC, Bank of Jiangsu and JGC. These synergistic partnerships explore growth opportunities in Hyflux's key markets in Asia and the MENA region and expand its market share in the global water industry.

3.9.1 Asset management

In 2007, Hyflux divested Singspring Pte Ltd ("**Singspring**") to a business trust, Singspring Trust. Singspring is the owner of the SingSpring Desalination Plant, the first seawater desalination plant in Singapore, and it has entered into a 20-year water purchase agreement with PUB, Singapore. Hyflux holds 30% of the units in the Singspring Trust. This trust structure is a good springboard to realise Hyflux's vision of its asset light strategy.

In the same year, Hyflux launched the first pure-play global water business trust in Asia – HWT, which gave Hyflux direct access to capital markets while providing investors with high quality, long-term, and predictable income streams. Listed on the SGX-ST, HWT is sponsored by Hyflux and managed by Hyflux Water Trust Management Pte Ltd. HWT owned close to 20 water-related infrastructure assets that are strategically located across the high-growth coastal provinces of the PRC. These plants benefit from Hyflux's expertise in optimal design and O&M experience.

In 2009, Hyflux entered into a 50:50 JV with leading global engineering company, JGC, to develop, invest and manage water projects in the PRC, including the Tianjin Dagang Seawater Desalination Plant.

In 2010, Hyflux entered into a 50:50 strategic JV with Mitsui to originate, invest, develop, construct, operate and maintain water plants in the PRC. By combining the complementary strengths of Hyflux and Mitsui – Hyflux's fully integrated water solutions and strong track record and experience in the PRC, and Mitsui's entrenched global network, comprehensive

infrastructure services and robust capital structure – the JV company, Galaxy, forms a powerful platform to accelerate investments in developing critical infrastructure to meet the PRC’s needs for clean, safe and affordable water.

The initial project portfolio of Galaxy consists of four water treatment plants acquired directly from Hyflux. In August 2010, Galaxy proposed a voluntary delisting of HWT and an exit offer to acquire all remaining HWT units not controlled by Hyflux. As at the Latest Practicable Date, Galaxy has successfully completed its compulsory acquisition and delisting of HWT.

3.9.2 Strategic partnerships with local partners

Hyflux enters into JV agreements with local partners and government companies to hold and operate water related assets. The involvement of local partners strengthens the JV company by providing capital, local knowledge and contacts. Hyflux remains the sole supplier of its proprietary membrane technology as well as its EPC work.

3.9.3 Global partnership with JBIC

In 2009, Hyflux signed an MOU for global collaboration on water projects with JBIC. The purpose of the MOU is to identify areas where JBIC would consider providing financing for Hyflux’s water projects in Asia (including the PRC and India) and the MENA region that involve the participation of Japanese equipment suppliers or investors. The mechanism through which such financing is provided may include financial instruments such as debt finance, guarantees, and equity investments (including investments in funds).

The significance of the partnership will have far-reaching implications as it presents Hyflux with the opportunities and financial leverage to further expand its presence in the global markets for water projects. The partnership will also enable Hyflux to tap on the market knowledge and connections of its partners in markets which Hyflux has yet to establish a strong presence, such as India and some of the MENA countries.

Hyflux will continue to explore new partnerships including financial platforms to augment its growth strategy and financial flexibility.

3.10 Developing its people

To lead the company into the next phase of growth, Hyflux focuses on recruiting, engaging, motivating and retaining individuals whose skills, aspirations and values are aligned to the Hyflux’s strategic vision and core values. Hyflux employs close to 2,300 employees in seven countries around the world. The Hyflux team is a global, diverse and passionate group unified by the desire to provide environmental solutions that mitigate global water scarcity and the depletion of natural resources. Hyflux recognises that its employees are the foundation of its business. It believes in creating an inclusive workplace where employees are given opportunities to develop their careers and capabilities.

Hyflux has a strong management team and the right people on the ground to take Hyflux to the next level of its development. Hyflux’s continuing motivation is to provide opportunities for its people to raise their knowledge and their skills in order to create new value for Hyflux.

3.11 Capitalising on opportunities

Hyflux will continue to focus on project delivery and continuous improvements in productivity. Innovation in membrane and process technology and in new applications will be on-going as it seeks solutions to meet the varying needs of its clients. At the same time, Hyflux will forge into new markets with its strategic partners.

4 CORE BUSINESS

Driven by a solid base of technology know-how and commercialisation, Hyflux’s business lines are:

- Membrane and system sales
- Water solutions
- O&M of water plants

4.1 Membrane and System Sales

Hyflux's proprietary membranes are installed in more than 1,000 plants worldwide, supplying to a kaleidoscope of filtration, separation and purification of the water treatment processes.

Hyflux's current proprietary membranes and systems include the following:

4.1.1 Kristal® Polymer Hollow Fibre UF Membrane



Fully designed and developed by Hyflux, Kristal® polymeric hollow fibre UF membranes are specially manufactured using proprietary dry-jet wet-spinning phase inversion technique.

The specially formulated hydrophilic polyethersulfone or polyvinylidene difluoride material, uniquely designed asymmetric profile with sponge-like structure, proprietary composite potting technique and an optimised process ensure high permeate flux and quality, and great system recovery. With minimum operating attention, Kristal® can still meet the strictest discharge criteria with ease. Low fouling property of the membrane can also reduce operating cost and plant downtime. These factors allow clients to enjoy a low capital and installation cost with a large membrane area per unit volume at a small footprint.

With the commitment of providing safe drinking water, Kristal® has received the mark of approval from NSF International, the independent, non-profit, non-governmental organisation which is the world leader in product certification for public health and safety. It is also an internationally recognised standard for food, water and consumer goods, especially in North America. Kristal® is one of seven UF membrane products in the world to receive such a recognition. Used in various ground-breaking and award-winning water plant projects, including the world's largest SWRO plant and producing one million m³ of permeate water to the RO trains daily, Kristal® has been recognised for its excellent filtration quality and operational stability.

Kristal® received the Frost and Sullivan – *“Technology Innovation of the Year Award 2007, Desalination Technologies (Asia Pacific)”*.

4.1.2 InoCep® Ceramic Hollow Fibre Membrane



Hyflux's award-winning InoCep® membrane is specifically designed to withstand high temperatures and pressures, extreme pH conditions and high solids content. Exploiting the superior chemical, thermal and mechanical stability of its alpha aluminium oxide material, InoCep® ceramic hollow fibre membrane is capable of long-service life even for highly demanding applications. Such applications include those that involve extreme processes such as the use of high temperatures, pressures, or aggressive solvents as well as the processing of feeds with high solids content.

Conventional polymeric membrane operations are usually limited by the chemical, thermal and mechanical stability of the membranes. When the medium to be treated exceeds such limits, the long-term resistance of even the strongest polymer membranes often proves inadequate. The robust design of the InoCep® system combines the advantages of high chemical, mechanical and thermal resistance, as well as the compactness and low cost of that of polymeric hollow fibres. The InoCep® system can be used to solve separation bottlenecks in a wide range of industries, such as the metal/steel mill, chemical process, food and beverages and biopharmaceutical industries.

InoCep® won the category award at the International Aquatech Innovation Awards 2006 – *“Water treatment/Point of use Category Winner”*.

4.1.3 FerroCep® Stainless Steel Tubular Membrane



Hyflux's FerroCep® is ideal for handling difficult industrial streams with high viscosity and solid content under extreme conditions, thus making it perfect for fermentation broths of amino acids, antibiotics, and vitamins. It has a long shelf life and can withstand elevated temperatures and pressures, concentrated solvents and extreme pH conditions.

Based on proven technology which combines a rugged tube made of sintered stainless steel powder with patented coating technology, a sintered titanium dioxide layer is permanently bonded to the porous stainless steel tube of FerroCep®. This inert and highly durable inorganic membrane can withstand elevated temperatures and pressures, concentrated solvents or extreme pH and has a much longer service life (more than 10 years of life span) than most ceramic and polymeric membranes.

The tubular cross-flow technology and 316L stainless steel construction make Hyflux's FerroCep® System virtually "bullet-proof", and allow the processing of a wide variety of difficult, dirty or hostile streams in a broad range of chemical conditions, pressures and temperatures. FerroCep®'s unique welding technology leads to less leakage problems caused by aging potting and seals.

FerroCep® is widely used in industrial applications that require high stability and performance such as oil and water separation, sugar juice clarification, fermentation broth concentration and clarification, catalysts and chemical recovery.

4.1.4 Membrane Evaluation System ("MES")

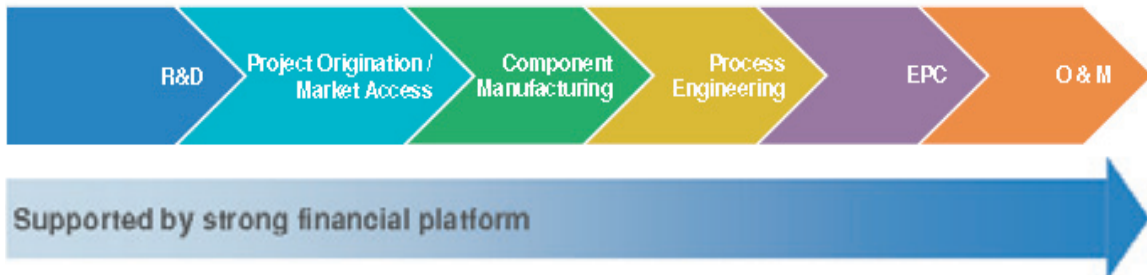
The MES is specifically designed to evaluate and optimise the performance of various hollow fibre membranes for liquid-liquid or liquid-solid separation, under different operating conditions. Features such as digital recording sensors, an LCD touch-screen control panel and large, upgradeable data storage capacity allow users to conduct and analyse precise and comprehensive data from just one system.

The MES simplifies the processes of selecting the most appropriate membrane type and formulating the right clean-in-place recipe for different applications. In addition, the upgradeable version MES-S-5000 offers components like built-in thermal controls, multiple preset testing parameters and quick data exporting capabilities.

Complementing the MES is Hyflux's proprietary Membrane Evaluation Kit ("MEK"). Housed in pH and temperature tolerant borosilicate glass tubes, the MEK offers clients an extensive range of ceramic and polymeric hollow fibre UF and microfiltration membranes manufactured by Hyflux. Moreover, the MES does not restrict users to using only Hyflux membranes, but also allows users to evaluate membranes made by themselves or others. The simple-to-use membrane potting kit provides the necessary components and instructions for users to assemble their very own test module.

4.2 Water Solutions

Hyflux provides one-stop water solutions covering the entire water value chain from R&D, project origination, component manufacturing, process engineering, EPC, to the O&M of industrial and municipal water treatment plants. The presence throughout the entire value chain enables the optimisation of the entire plant and tighter control over timelines. Hyflux's involvement in the O&M also provides incentive to minimise life-cycle cost of the plant.



4.2.1 Desalination

The global desalination market is a robust and growing one. Through continuous improvements to its proprietary membranes, process design and operational know-how gained from its experience in designing, building and operating world-scale desalination plants in Singapore, the PRC and the MENA region, Hyflux is well placed to provide economical, reliable and sustainable energy-efficient water solutions to water stressed markets.

Desalination refers to the process of removing salt and other minerals from water. The desalinated water is then used for human consumption or in industries. There are mainly two types of desalination processes - thermal distillation and membrane-based desalination. Membrane-based desalination uses semi-permeable membranes and pressure to separate salts from water.

In the last decade, this method has been the preferred choice of many industries and has consequently undergone numerous improvements. This is because membrane systems typically use less energy than thermal distillation, and technology enhancements have led to a reduction in overall desalination costs over the last decade.

The key water desalination projects undertaken by Hyflux are as follows:

4.2.1.1 SingSpring Desalination Plant

Client	: PUB, Singapore
Project	: Design, construct, finance and maintain a seawater desalination plant for a period of 20 years
Capacity	: 136,380m ³ /day
Completed	: 2005



The SingSpring Desalination Plant at Tuas is Singapore's first seawater desalination plant and it meets some 10% of the nation's water needs. Under a 20-year build-own-operate arrangement with PUB, the plant produces 136,380m³/day of potable water, enough to fill about 55 Olympic size swimming pools. It adopts RO technology with semi-permeable membranes.

The SingSpring Desalination Plant has a number of distinct qualities. It is:

- the largest SWRO desalination plant in the tropics;
- one of the largest single RO trains in the world;
- the largest in-filter Dissolved Air Flotation and Filtration in the world; and
- one of the most energy efficient desalination plants in the world.

The plant was Singapore's first public-private partnership initiative and was completed three months ahead of schedule in September 2005. The project financing deal was awarded the Euromoney Asia Pacific Water Deal of the Year in 2003. This award has set a new benchmark in terms of scope as well as complexity of execution in the growing market of privately financed water projects. It also won Distinction at the Global Water Awards 2006.

4.2.1.2 *Tianjing Dagang Desalination Plant*

Client : People's Government of Tianjin City, Dagang District, the PRC
Project : Develop, design, build, own and operate a SWRO desalination plant
Capacity : 100,000m³/day, expandable to 150,000m³/day
Completed : 2009



The Tianjin Dagang Desalination Plant is the largest membrane-based seawater desalination plant in the PRC and one of the world's most northern large-scale desalination plants. It utilises Hyflux's proprietary Kristal® UF membranes for the pre-treatment process and a double pass RO process to produce water for Tianjin's petrochemical industries.

Sited next to the existing Dagang power plant, the Tianjin Dagang Desalination Plant derives its feed water from the cooling water discharge of the power plant. With the intake water being 5°C warmer than the ambient temperature, lower osmotic pressure is required during the treatment process, resulting in lower energy consumption and higher efficiency levels.

The plant's modular design has also enabled the delivery of water on specification only three months on from testing and commissioning.

4.2.1.3 *Tlemcen Desalination Plant*

Client : Algerian Energy Company ("AEC"), Algeria
Project : Design, develop, build, operate and maintain a SWRO desalination plant on 25 years' concession
Capacity : 200,000m³/day
Completed : 2011

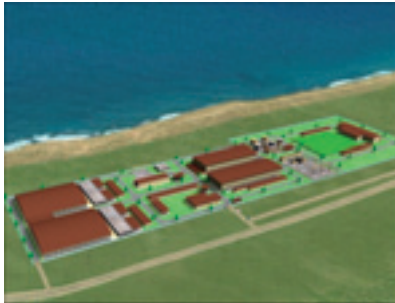


The Tlemcen Desalination Plant is a JV project with Malakoff AIDjazair Desal Sdn Bhd and AEC, the state-owned company handling power and water privatisation exercise in Algeria. It marks Hyflux's entry into the water treatment market in Algeria and the MENA region.

The plant, which is situated just 50m from the coast, utilises Hyflux's proprietary Kristal® UF membranes for the pre-treatment process and a RO process to produce water for both the state-owned water entity and national oil company of Algeria.

4.2.1.4 *Magtaa Desalination Plant*

Client	: AEC, Algeria
Project	: Design, develop, build, operate and maintain a SWRO desalination plant on 25 years' concession
Capacity	: 500,000m ³ /day
Expected Completion	: 2011



Hyflux won the bid – amidst intense global competition with top-flight international players – to build the world's largest SWRO desalination plant in Magtaa, Algeria, shortly after winning the 200,000m³/day Tlemcen desalination project in October 2006. This landmark win has helped Hyflux surge ahead in the global water landscape. The UF process in this plant uses Hyflux's award-winning proprietary Kristal® UF membranes. With a designed capacity of 500,000m³/day, the project is the world's single largest UF and RO desalination plant.

With both the Tlemcen and Magtaa projects combined, Hyflux is Algeria's single largest provider of desalinated water, contributing to more than 30% of the total capacity.

4.2.1.5 *Salalah Independent Water and Power Project*

Client	: SEPCOIII Electric Power Construction Corporation
Project	: Design and supply a desalination facility for the IWPP in Oman
Capacity	: 68,000m ³ /day
Expected Completion	: 2011

Hyflux secured the contract to design and supply a desalination facility for the Salalah IWPP in Oman. This contract marks the first desalination project in Oman and the first IWPP project for Hyflux. This is a reflection of the growing market opportunities for membrane-based desalination facilities to be built alongside IWPP projects in the PRC, India and the MENA region.

4.2.1.6 *Tembusu Seawater Desalination Plant*

Client	: TP Utilities Pte Ltd
Project	: EPC works for Stage One of the Tembusu Seawater Desalination Plant
Capacity	: 182,000m ³ /day
Expected Completion	: 2011

Hyflux has been awarded a contract by TP Utilities Pte Ltd, a wholly-owned unit of leading power company Tuas Power Ltd to undertake the EPC works for stage one of the Tembusu Seawater Desalination Plant. The plant, which will be developed in stages, will have a designed capacity to produce approximately 182,000m³/day of high grade industrial water to be supplied to the petrochemical factories that will be situated in the Tembusu area of Jurong Island.

4.2.2 **Water Recycling**

Water recycling is a good alternative to seawater desalination for water-stressed areas that do not have access to the sea. While psychological factors may inhibit the use of recycled water for drinking purposes, it can be channeled for use in industries, leaving more water available for human consumption.

Hyflux's experience in building water recycling plants in Singapore and the PRC utilising its proprietary Kristal® UF membranes makes Hyflux a partner of choice when it comes to delivering sustainable water solutions to water-stressed regions, particularly those with no access to the sea.

Water recycling is the process of reclaiming used water or wastewater and treating the reclaimed or recycled water by removing solids and certain impurities for reuse. Wastewater recycling is a good alternative to seawater desalination for water-stressed areas that do not have access to the sea.

The key water recycling projects undertaken by Hyflux are as follow:

4.2.2.1 Bedok NEWater Plant

Client	: PUB, Singapore
Project	: Supply and installation of high grade industrial water reclamation process plant
Capacity	: 32,000m ³ /day, expandable to 88,000m ³ /day
Completed	: 2002



The Bedok NEWater plant was the first of five NEWater plants in Singapore. Hyflux supplied process equipment for the plant, which uses UF and RO processes and ultraviolet disinfection to treat secondary effluent and produce high quality water for industrial applications.

NEWater is a term coined by PUB, for high-grade reclaimed water that has been purified with advanced dual-membrane and ultraviolet technologies.

The Bedok NEWater plant marked Hyflux's first foray into the municipal water treatment market as well as the first large-scale use of membranes in Singapore.

4.2.2.2 Seletar NEWater Plant

Client	: PUB, Singapore
Project	: Design and construction of high grade water reclamation plant
Capacity	: 24,000m ³ /day, expandable to 40,000m ³ /day
Completed	: 2004



Following Hyflux's first success in the Bedok NEWater plant, another NEWater project was secured from PUB in December 2002. Hyflux designed, constructed and commissioned Singapore's third NEWater plant at Seletar to produce 24,000m³/day of NEWater for Phase 1 and expanded it to a maximum of 40,000m³/day for Phase 2.

Hyflux's proprietary Kristal® UF membrane system was selected for use at the Seletar NEWater plant in the pretreatment stage. The Kristal® manufactured by Hyflux, represented a technology breakthrough in the treatment of different feed waters, municipal wastewater and other liquid streams. Capable of producing 24,000m³ of recycled wastewater per day, the plant marks the first time that Hyflux's proprietary UF membranes were used on such a scale.

The UF membrane system based in Kristal® technology is simple, robust and subjected to the most stringent quality control. This assures the utmost product integrity, consistency and reliability in performance. When compared to conventional pre-treatment, Kristal® provides greater process assurance as it can remove particulate and colloidal materials more reliably with the use of fewer chemicals. Kristal® is also efficient in terms of both footprint and bacterial and virus log removal. In addition, because of the high quality permeate from Kristal®, it provides the RO systems with a higher sustainable flux, smaller system size and lower leaning frequency, thereby significantly reducing operation capital costs.

4.2.3 Wastewater Treatment – Conventional and MBR Technology

Hyflux offers comprehensive, cost-effective and reliable wastewater treatment systems for a wide range of applications across many cities, municipalities and industries.

A one-stop solutions provider, Hyflux's experienced team of researchers, engineers and technical personnel can customise and provide effective wastewater treatment purification solutions based on the desired water quality and output.

Conventional wastewater treatment is the treatment of used water released from residences, businesses (such as restaurants and food courts) and industries. It is a multi-stage treatment process to eliminate or reduce the pollutants and toxins in wastewater to an acceptable level before the water can be safely discharged into the environment. Wastewater treatment may also be followed by recycling for reuse.

The key projects for the waste water treatment plants undertook by Hyflux are as follow:

4.2.3.1 Langfang Wastewater Treatment and Water Recycling Plant

Client	: People's Government of Langfang City, the PRC
Project	: Transfer-Own-Transfer on 25 years' concession
Capacity	: 80,000m ³ /day (wastewater treatment plant), 40,000m ³ /day (water recycling plant)
Completed	: 2007



The Langfang wastewater treatment and water recycling plant is located at the Bohai Rim Economic Circle and Capital Economic Circle in Hebei Province. The wastewater treatment plant is designed to treat wastewater using the biological treatment process that meets the PRC's stringent Class I discharge standard.

Growth in demand for wastewater treatment and recycled water is supported by high-tech factories from machinery, telecommunications and automotive component manufacturing industries housed in the concession area.

4.2.3.2 **Beichen Wastewater Treatment & Water Recycling Plant**

Client	: People's Government of Beichen District, Tianjin City, the PRC
Project	: Build-Own-Transfer on 30 years' concession
Capacity	: 50,000m ³ /day (wastewater treatment plant), 30,000m ³ /day (water recycling plant)
Completed	: 2008



Tianjin is a province with water scarcity issues and the municipality of Tianjin is actively pursuing water conservation and expansion of treatment facilities. The Beichen wastewater treatment plant is located in the Beichen District, along the Jing Jin high-tech industries belt in Tianjin City.

The presence of a high-tech industrial park in the concession area provides opportunities for the water recycling plant to supply high grade recycled water to factories from the electromechanical manufacturing, biopharmaceuticals, auto parts, food and beverages processing, new materials and

rubber industries. The plant adopts the biological treatment process to treat wastewater to the PRC's Class I discharge standard.

The MBR technology combines the membrane process of filtration and the solid-liquid separation step into a single and cost-effective process that reduces capital and operating costs. It is a highly advanced method and is widely used for municipal and industrial wastewater treatment.

MBRs offer several advantages over conventional wastewater treatment, such as producing effluent of high quality enough to be reused or discharged to coastal, surface or brackish waterways, small footprint, easy retrofit and simple operations.

The key project for MBR water treatment plants undertaken by Hyflux is as follow:

4.2.3.3 **Jurong MBR**

Client	: PUB, Singapore
Project	: Design, construct, test and commission Singapore's largest MBR plant
Capacity	: 68,000m ³ /day
Expected Completion	: 2011

The plant will be situated at the Jurong Water Reclamation Plant. It will be Singapore's largest MBR plant when completed. Using biological processes and microfiltration membranes, used water from the industrialised Jurong catchment will be treated for use by industries located on Jurong Island.

4.2.4 **Potable Water Treatment**

Hyflux is experienced in natural resource water purification, bottled water filtration, as well as mobile water purification systems.

Potable water is simply water that is safe to drink, free from pollution, harmful organisms and impurities. Hyflux's proprietary Kristal® UF membranes give an added advantage when purifying water in regions where the water source contains impurities or has a high salinity content.

4.2.4.1 Chestnut Avenue Waterworks (“CAWW”)

Client	: PUB, Singapore
Project	: Supply of membrane filtration system for the expansion of potable water treatment works at CAWW
Capacity	: 273,000m ³ /day
Completed	: 2003



The CAWW is Singapore’s first waterworks that uses membrane-based filtration to produce potable water. To meet increasing treatments demands, Hyflux re-designed the former treatment plant and used a siphon in lieu of permeate pumps. This reduced the footprint size and hence reduced the operating cost of the plant.

The ability to produce water of consistent and superior quality as compared to conventional treatment motivated the adoption of advanced membrane technology as the treatment process for raw water in CAWW. CAWW is also

one of the world’s largest potable water plants using UF membrane treatment works for potable water.

4.3 Operations & Maintenance

Hyflux’s team of experienced industry veterans provide round the clock O&M services and support to its global clients. Its proven ability to operate and maintain plants at optimal level has won Hyflux international recognition. One such plant is the SingSpring Desalination Plant – Singapore’s first membrane-based seawater desalination facility, which boasts high levels of energy and operational efficiencies. It was conferred a Distinction Award for “Desalination Plant of the Year” at the Global Water Awards 2006, by GWI, United Kingdom. More recently, Hyflux’s Tianjin Dagang Desalination Plant in Dagang district, Tianjin province, the PRC received a Highly Commended Award for “Desalination Plant of the Year” at the Global Water Awards 2010, by GWI, United Kingdom.

Hyflux offers the following O&M advantages:

- High plant availability
- Reliable water quantity and quality
- Cost efficiency and effectiveness
- Compliance with laws and regulations, with special emphasis on health, safety and environmental aspects
- Advice on plant improvements

5 RECENT DEVELOPMENTS

In January 2011, Hyflux announced that its subsidiaries have signed three concession agreements with the People’s Government of Chongqing City, Hechuan District, the PRC, to develop respectively three water projects at the Hechuan Industrial Park in Chongqing City, the PRC. Hyflux, through its subsidiaries in the PRC, will operate and maintain the plants over the concession period of 30 years.

The three plants, comprising two wastewater treatment plants and a potable water treatment plant, are:

- Hexin District Wastewater Treatment Plant which will be designed to treat 20,000m³/day of wastewater for the industrial park
- Weituo Wastewater Treatment Plant with a treatment capacity of 20,000m³/day, also for the industrial park
- Weituo Water Treatment Plant which will tap water from upstream Jialing River to produce up to 50,000m³/day potable water for industrial and domestic use

In February 2011, Hyflux announced that it has been awarded a concession by the People's Government of Zunyi City pursuant to an open bid to develop a wastewater treatment plant to treat up to 150,000m³ of domestic wastewater per day for Zunyi City in north Guizhou province, the PRC. Hyflux, through its subsidiary in the PRC, will develop the project on a Build-Own-Transfer arrangement. Besides undertaking the design and EPC works, Hyflux will operate and maintain the plant on a 30-year concession.

In March 2011, Hyflux and Japan's Mizuho Corporate Bank signed an MOU to collaborate on global water business development and explore various financing structures for water projects.

On 25 April 2011, Hyflux successfully issued S\$400 million in aggregate liquidation preference of 6% cumulative non-convertible non-voting perpetual Class A Preference Shares (the "**Class A Cumulative Preference Shares**"), callable at the option of Hyflux in 2018 with step-up to a dividend rate of 8% per annum on and from 25 April 2018 at the issue price of S\$100 per Class A Cumulative Preference Share.

In April 2011, Hyflux signed a water purchase agreement with PUB to design, build, own and operate Singapore's second and largest SWRO desalination plant in Tuas (the "**Tuaspring Desalination Plant**") for a concession period of 25 years. The Tuaspring Desalination Plant, which will incorporate Hyflux's proprietary Kristal® UF membrane technology, is designed to produce 318,500m³/day of water. Hyflux will also be constructing a 411MW combined cycle gas turbine power plant to supply electricity to the desalination plant. Excess power will be sold to the power grid.

On 4 July 2011, Hyflux secured funds of S\$150 million to build the Tuaspring Desalination Plant. On the following day, 5 July 2011, PUB and Hyflux marked the ground-breaking for this plant, signifying the start of ground works at the 14-hectare site in Tuas on the western section of Singapore. As publicly announced, construction will start by the fourth quarter of 2011 and the project is scheduled to commence operations by 2013.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information in this section relate to the Issuer and its subsidiaries and the Issuer's and its subsidiaries' interests in associates and jointly controlled entities.

The following sets out the audited consolidated financial statements of the Issuer for the financial years ended 31 December 2008, 31 December 2009 and 31 December 2010:

Audited Consolidated Income Statements for the financial years ended 31 December 2008, 31 December 2009 and 31 December 2010

	<u>The Group</u>		
	2010 S\$'000	2009 S\$'000	2008 S\$'000
Revenue	569,737	524,814	554,224
Other income	6,855	6,707	5,264
Changes in inventories of finished goods and work-in-progress	2,641	1,332	3,710
Raw materials and consumables used and subcontractors' cost	(302,961)	(309,371)	(387,767)
Staff costs	(65,408)	(59,428)	(52,606)
Depreciation, amortisation and impairment	(27,501)	(16,521)	(9,718)
Bargain purchase on acquisition of business	–	–	–
Other expenses	(68,089)	(57,936)	(31,110)
Finance costs	(16,760)	(9,259)	(10,222)
Share of profit/(loss) of associates, net of income tax	1,959	2,634	(1,400)
Profit before income tax	100,473	82,972	70,375
Income tax expense	(11,588)	(8,681)	(8,157)
Profit after income tax	88,885	74,291	62,218
Profit attributable to:			
Owners of the Issuer	88,510	75,036	59,036
Non-controlling interests	375	(745)	3,182
	88,885	74,291	62,218

Audited Consolidated Balance Sheets as at 31 December 2008, 31 December 2009 and 31 December 2010

	<u>The Group</u>		
	31 Dec 2010	31 Dec 2009	31 Dec 2008
	S\$'000	S\$'000	S\$'000
<u>NON-CURRENT ASSETS</u>			
Property, plant and equipment	155,826	134,926	56,857
Intangible assets	62,075	61,744	47,459
Intangible assets arising from service concession arrangements	129,494	27,871	19,064
Investment property	–	2,116	2,244
Investment in associates	75,032	102,654	94,716
Other investments	–	99	908
Financial receivables	226,149	155,947	194,204
Trade and other receivables	15,816	35,312	44,137
Deferred tax assets	1,616	2,761	2,799
Total non-current assets	666,008	523,430	462,388
<u>CURRENT ASSETS</u>			
Gross amounts due for contract work	254,469	119,994	93,987
Inventories	26,261	32,497	33,827
Financial receivables	5,851	7,818	3,248
Trade and other receivables, including derivatives	182,398	222,089	151,531
Other investments	2,429	–	–
Assets classified as held for sale	–	–	10,834
Cash and fixed deposits	222,286	166,735	90,740
Total current assets	693,694	549,133	384,167
<u>CURRENT LIABILITIES</u>			
Trade and other payables, including derivatives	210,038	265,772	268,234
Loans and borrowings	95,660	45,305	50,344
Tax payable	10,251	6,794	5,925
Liabilities classified as held for sale	–	–	1
Total current liabilities	315,949	317,871	324,504
Net current assets	377,745	231,262	59,663

Audited Consolidated Balance Sheets as at 31 December 2008, 31 December 2009 and 31 December 2010

(cont'd)

	The Group		
	31 Dec 2010	31 Dec 2009	31 Dec 2008
	S\$'000	S\$'000	S\$'000
<u>NON-CURRENT LIABILITIES</u>			
Loans and borrowings	503,606	355,018	207,892
Deferred tax liabilities	25,640	6,272	6,260
Total non-current liabilities	529,246	361,290	214,152
Net assets	514,507	393,402	307,899
<u>EQUITY</u>			
Share capital	207,474	105,114	99,118
Reserve for own shares	(1,292)	(1,292)	–
Capital reserves	4,752	8,627	7,204
Foreign currency translation reserve	(14,637)	4,543	9,257
Hedging reserve	(3,560)	(6,716)	(13,496)
Employees' share option reserve	18,609	16,780	12,971
Retained earnings	291,155	238,188	182,493
Total equity attributable to equity holders of the Issuer	502,501	365,244	297,547
Non-controlling interests	12,006	28,158	10,352
Total equity	514,507	393,402	307,899

Financial Review

FY2010 versus FY2009

The Group's revenue increased by 9% to \$569.7 million in FY2010. This was mainly contributed by the higher municipal revenue in the MENA region and Singapore.

Despite higher revenues, raw materials and consumables used and subcontractors' costs decreased by 2% in FY2010 due to cost management measures. Staff costs increased 10% in line with the Group's expansion plans. Increase in other expenses was primarily driven by foreign exchange losses during the year. Resultant net profit attributable to shareholders increased 18% to a record \$88.5 million in FY2010.

Current assets increased by \$144.6 million mainly due to increases in amount due for contract work and cash and fixed deposits. Non-current assets increased \$142.6 million from increases in plant, property and equipment as well as financial receivables. Non-current liabilities increased by \$168.0 million from higher bank borrowings to support the Group's expansion and investment activities.

FY2009 versus FY2008

The Group's revenue decreased by 5% to \$524.8 million in FY2009. This was mainly due to lower Engineering Procurement and Construction revenue from fewer projects being carried out in the PRC's municipal and industrial sectors, driven by the global economic downturn and credit crunch.

Raw materials and consumables used and subcontractors' costs decreased by 20% in FY2009 due to cost management measures and lower sales volume. Staff costs increased by 13% in preparation for the execution of the world's largest seawater desalination plant in Magtaa, Algeria and new staff for operation and maintenance of newly completed plants. Despite lower revenue, net profit attributable to the owner of Issuer in FY2009 hit a record \$75.0 million for the year, 27% higher than FY2008.

Current assets increased by \$165.0 million mainly due to higher trade receivables and cash and fixed deposits. Non-current assets increased by \$61.0 million from property, plant and equipment and intangible assets arising from acquisition of subsidiaries during the year. Non-current liabilities increased by \$147.1 million from higher bank borrowings to support the Group's expansion and investment activities.

INVESTMENT CONSIDERATIONS

Prior to making an investment or divestment decision, prospective investors or existing holders of the Notes should carefully consider all the information set forth in this Information Memorandum including the risk factors set out below.

The risk factors set out below do not purport to be complete or comprehensive of all the risk factors that may be involved in the business, assets, financial condition, performance or prospects of the Issuer and its respective subsidiaries or the properties owned by the Group or any decision to purchase, own or dispose of the Notes. Additional risk factors which the Issuer is currently unaware of may also impair its business, assets, financial condition, performance or prospects. If any of the following risk factors develop into actual events, the business, assets, financial condition, performance or prospects of the Issuer and/or the Group could be materially and adversely affected. In such cases, the ability of the Issuer to comply with its obligations under the Trust Deed and the Notes may be adversely affected.

Limitations of this Information Memorandum

This Information Memorandum does not purport to nor does it contain all information that a prospective investor in or existing holder of the Notes may require in investigating the Issuer or the Group, prior to making an investment or divestment decision in relation to the Notes issued under the Programme.

Neither this Information Memorandum nor any document or information (or any part thereof) delivered or supplied under or in relation to the Programme or the Notes (nor any part thereof) is intended to provide the basis of any credit or other evaluation and should not be considered a recommendation by the Issuer, either of the Arrangers or any of the Dealers that any recipient of this Information Memorandum or any such other document or information (or such part thereof) should subscribe for or purchase or sell any of the Notes.

This Information Memorandum is not, and does not purport to be, investment advice. A prospective investor should make an investment in the Notes only after it has determined that such investment is suitable for its investment objectives. Determining whether an investment in the Notes is suitable is a prospective investor's responsibility, even if the investor has received information to assist it in making such a determination. Each person receiving this Information Memorandum acknowledges that such person has not relied on the Issuer, its subsidiaries and/or its associated companies (if any) and/or its joint venture companies (if any), either of the Arrangers or any of the Dealers or any person affiliated with each of them in connection with its investigation of the accuracy or completeness of the information contained therein or any additional information considered by it to be necessary in connection with its investment or divestment decision. Any recipient of this Information Memorandum contemplating subscribing for or purchasing or selling the Notes should determine for itself the relevance of the information contained in this Information Memorandum and any such other document or information (or any part thereof) and its investment or divestment should be, and shall be deemed to be, based solely on its own independent investigation of the financial condition and affairs, and its own appraisal of the credit worthiness of the Issuer and the Group, the terms and conditions of the Notes and any other factors relevant to its decision, including the merits and risk involved. A prospective investor should consult with its legal, tax and financial advisers prior to deciding to make an investment in the Notes.

RISKS RELATING TO NOTES

Limited liquidity of the Notes issued under the Programme.

There can be no assurance regarding the future development of the market for the Notes issued under the Programme, the ability of the Noteholders, or the price at which the Noteholders may be able, to sell their Notes.

Although the issue of additional Notes may increase the liquidity of the Notes, there can be no assurance that the price of such Notes will not be adversely affected by the issue in the market of such additional Notes.

Fluctuation of the market value of Notes.

Trading prices of the Notes are influenced by numerous factors, including the operating results and/or financial condition of the Issuer, its subsidiaries and/or its associated companies (if any) and/or its joint venture companies (if any), political, economic, financial and any other factors that can affect the capital markets, the industry, the Issuer, its subsidiaries and/or its associated companies (if any) and/or its joint venture companies (if any) generally. Adverse economic developments, in Singapore as well as countries in which the Issuer, its subsidiaries and/or its associated companies (if any) and/or its joint venture companies (if any) operate or have business dealings, could have a material adverse effect on the operating results and/or the financial condition of the Issuer, its subsidiaries and/or its associated companies (if any) and/or its joint venture companies (if any).

Performance of contractual obligations.

The ability of the Issuer to make payments in respect of the Notes may depend upon the due performance by the other parties to the Programme Agreement, the Trust Deed and the Agency Agreement of their obligations thereunder including the performance by the Trustee, the Issuing and Paying Agent and/or the Agent Bank of their respective obligations. Whilst the non-performance of any relevant parties will not relieve the Issuer of their obligations to make payments in respect of the Notes, the Issuer may not, in such circumstances, be able to fulfill its obligations to the Noteholders and the Couponholders.

Interest rate risk.

Noteholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in bond prices, resulting in a capital loss for the Noteholders. However, the Noteholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, bond prices may rise. The Noteholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

Inflation risk.

Noteholders may suffer erosion on the return of their investments due to inflation. Noteholders would have an anticipated rate of return based on expected inflation rates on the purchase of the Notes. An unexpected increase in inflation could reduce the actual returns.

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained in this Information Memorandum or any applicable supplement to this Information Memorandum;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The Notes may be subject to optional redemption by the Issuer.

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of such Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate that is as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Variable Rate Notes may have a multiplier or other leverage factor.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Notes may be issued at a substantial discount or premium.

The market value of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Modification.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The secondary market generally.

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Liquidity may have a severely adverse effect on the market value of Notes.

Singapore taxation risk.

The Notes to be issued from time to time under the Programme during the period from the date of this Information Memorandum to 31 December 2013 are intended to be "qualifying debt securities" for the purposes of the Income Tax Act, Chapter 134 of Singapore ("ITA"), subject to the fulfillment of certain conditions more particularly described in the section "Singapore Taxation". However, there is no assurance that such Notes will continue to enjoy the tax concessions should the relevant tax laws be amended or revoked at any time.

The Qualifying Debt Securities Plus Scheme (“**QDS Plus Scheme**”) has also been introduced as an enhancement of the Qualifying Debt Securities Scheme. Under the QDS Plus Scheme, subject to certain qualifications and conditions, income tax exemption is granted on interest, discount income (not including discount income from secondary trading), “prepayment fee”, “redemption premium” and “break cost” (as such terms are defined in the ITA) derived by any investor from qualifying debt securities (excluding Singapore Government Securities) which:

- (a) are issued during the period from 16 February 2008 to 31 December 2013;
- (b) have an original maturity of not less than 10 years;
- (c) cannot be redeemed, called, exchanged or converted within 10 years from the date of their issue; and
- (d) cannot be re-opened with a resulting tenure of less than 10 years to the original maturity date.

With respect to any tranche of the Notes issued with an original maturity of at least 10 years and which are “qualifying debt securities”, there is no assurance that holders of such Notes would enjoy any tax exemption under the QDS Plus Scheme as it is currently unclear how the above requirements would be applicable in the context of certain events occurring within 10 years from the date of issue of such Notes.

RISKS RELATING TO THE ISSUER’S AND THE GROUP’S BUSINESS, FINANCIAL CONDITION AND/OR RESULTS OF OPERATIONS

The outbreak of an infectious disease or any other serious public health concerns in Asia and elsewhere could adversely impact the business, results of operations and financial condition of the Group.

As most of the Group’s business activities are concentrated in Asia, the outbreak of an infectious and/or communicable disease such as the Severe Acute Respiratory Syndrome or the Influenza A virus and its variants including swine influenza (H1N1) and avian influenza (H5N1) in Asia and elsewhere, together with any resulting restrictions on travel and/or imposition of quarantines, could have a negative impact on the economy and business activities in Asia, and could thereby adversely impact the revenues and results of operations of the Group. For example, should a significant number of employees at a plant be diagnosed with H1N1 or H5N1, the operations of that plant may be interrupted. Such disruptions may adversely affect the Group’s financial condition, results and/or operations; in particular, if such outbreak becomes uncontrolled and has a material adverse economic effect in the countries where the Group operates and conducts business.

Pollution of the seawater supply to the Group’s plants may adversely affect its earnings.

The desalination process of the various seawater desalination plants requires seawater from the surrounding waters off the geographical land area of respective plant sites to produce desalinated water. In the event the seawater is polluted, and depending on the level of pollution, it may not be possible for the seawater to be desalinated at all, or to be desalinated into water that is in accordance with the standards provided for under the relevant water purchase agreements or other offtake agreements (collectively, the “**WPA**”). For example, the seawater could be polluted by contaminants from industrial discharge, oil spills, or other events which are outside the control of the Group. Pollution of the seawater used in the desalination process may adversely affect the operating costs or earnings of the Group by requiring it to incur additional expense to desalinate the water to be in compliance with the WPA or because of reduced payments by offtakers under the WPA due to reduced water availability or quality. In the event that the degradation in seawater quality results in an inability by the Group to fully perform its obligation to provide desalinated water under the WPA, resulting in either a reduction or suspension of payment under the WPA, this would adversely and materially affect the Group’s operations, business and financial condition.

Terrorist attacks, other acts of violence or war and adverse political developments may affect the business, results of operations and financial condition of the Group.

The terrorist attacks in various parts of the world may result in substantial and continuing economic volatility and social unrest globally. Further developments stemming from these events or other similar events around the world could cause further volatility. Any significant military or other response by the U.S. and/or its allies or any further terrorist activities could also materially and adversely affect international financial markets and the economies where the Group operates and may adversely affect the operations, revenues and profitability of the Group. For instance, the Issuer's largest project as at the Latest Practicable Date in the MENA region is a collaborative effort for the construction, operation and maintenance of a 500,000 m³/day seawater desalination plant in Algeria. Algeria has experienced volatile political, economic, security and social conditions in its recent history. The occurrence of terrorist attacks or armed conflicts in Algeria can adversely affect the Issuer's operations in Algeria.

Economic conditions in Asia may affect the business, results of operations and financial condition of the Group.

Most of the Group's business activities are concentrated in Asia. As a result, the Group's revenue, results of operations and future growth depend, to a large extent, on the continued growth of the markets in Asia. Over the past few years, currency fluctuations, liquidity shortages, fluctuations in interest rates and other factors have adversely affected the Asian economies. The effect of a further decline in the economic conditions in Asia could adversely affect the Group's results of operations and future growth.

Global economic conditions may adversely affect the business, results of operations and financial condition of the Group.

The business of the Group is subject to fluctuations in the economic conditions as well as the regulatory controls in the countries which it has operations. The Group may in the future expand its businesses to other countries. The risk profile of the entities in the Group will therefore be subject to the political, economic, social, security, regulatory and/or other risks in each of the countries or businesses that the entities in the Group operate in. The business, financial condition and performance of the entities in the Group may be adversely affected by any of such political, economic, social, security, regulatory and/or other conditions or developments. Accordingly, the stability of income flow, business, financial condition, performance or prospects of the Group may in turn be adversely affected. Global economic conditions may also impact the availability of funds, which could consequently affect the Group's ability to obtain financing to fuel growth of its businesses and/or to refinance existing debt obligations.

The Group may engage in hedging transactions, which can limit gains and increase exposure to losses.

The Group may enter into hedging transactions to protect itself from the effects of interest rate and currency exchange fluctuations on floating rate debt. Hedging transactions may include entering into interest rate hedging instruments, purchasing or selling futures contracts, purchasing put and call options or entering into forward agreements. Hedging involves various risks, including, without limitation, risks associated with the creditworthiness of the hedge counterparty. There is no assurance that the Group would be able to adequately manage its risks through hedging transactions.

Consequently, the interest cost to the Group for the floating interest rate debt will be subject to fluctuations in interest rates. Hedging policies may not adequately cover the Group's exposure to interest rate fluctuations which could potentially affect the Group's operations or financial condition.

The Group is exposed to foreign exchange fluctuation risks.

The Group operates in several countries and, as a result, is exposed to movements in foreign exchange rates. The Group's revenues, purchases and operational expenses are primarily denominated in US dollars, Singapore dollars, RMB, Algerian dinars and Euros. As such, the Group may have a net foreign exchange exposure due to a mismatch in the currencies of receipts and payments. To the extent of such mismatch, any significant appreciation or depreciation in the currencies of which the Group collects revenues against the currencies in which the Group's expenses are denominated may cause the Group to incur foreign exchange losses. The Group also records its financial results in Singapore dollars.

Any fluctuations in currency exchange rates will also result in exchange gains and losses arising from transactions carried out in foreign currencies as well as translations of foreign currency monetary assets and liabilities as at the various balance sheet dates.

The Group may be subject to restrictions in repatriation of funds.

The Group may be subject to foreign exchange controls that may adversely affect the ability to repatriate the income or capital that are located outside of Singapore. Repatriation of income and capital may require the consent of the relevant governments. Delays in or refusals to grant any such approval, revocations or variations of consents previously granted, or the imposition of new restrictions may adversely affect the Group's business, results of operations and financial condition.

The Group faces increasing competition in its key markets.

The Group's businesses compete with both domestic and international companies with respect to factors such as location, facilities, supporting infrastructure, services and pricing. Intensified competition may result in increased costs for land, materials, overheads and increased delays in the approval process for new projects by the relevant government/municipal authorities, all of which may adversely affect the Group's business.

Some of the competing companies have significant financial resources, marketing and other capabilities. Domestic companies in the overseas markets have extensive knowledge of the local networks and relationships in their respective domestic markets. International companies are able to capitalise on their overseas experience and greater financial resources to compete in the markets in which the Group has an overseas presence. As a result, there can be no assurance that the Group will be able to compete successfully in the future against its existing or potential competitors or that increased competition with respect to the Group's activities may not have a material adverse effect on the Group's business, financial condition and results of operations.

Certain construction and management risks may arise within the Group's projects.

A segment of the Group's business is project-based, and good project management, procurement of materials and allocation of resources are important factors for the successful completion of projects.

Cost of materials is a significant component of the Group's expenditure. An example is steel, which is one of the key materials for the Group's water-related projects. The Group may not be able to fully pass on the cost of such materials to its customers and any increase in the cost of such raw materials could have a material adverse effect on the Group's financial condition and results of operations.

The construction and development of projects also entail significant risks, including shortages of materials or skilled labour, unforeseen engineering, environmental or geological problems, work stoppages, litigation, weather interference, floods and unforeseen cost increases, any of which could give rise to delayed completions or cost overruns. Difficulties in obtaining any requisite licences, permits, allocations or authorisations from regulatory authorities could also increase the cost, or delay the construction or opening of, new projects.

All of the above factors may affect the Group's business, results of operations and financial condition.

The Group may suffer uninsured losses.

The Group maintains insurance policies covering its assets, business and employees in line with general business practices in Singapore. There are, however, certain types of losses (such as those resulting from wars, acts of terrorism, acts of God or political risks) that are generally not insured or not fully insured because they are either uninsurable or the costs are prohibitive when compared to the risks. For example, there is no insurance available for degradation in the quality of seawater around the plants and facilities, which is the source of water used in the desalination process. The Group's existing insurance policies may not be adequate to cover damage to or loss of its desalination facilities, replacement costs, lost revenues, increased expenses or liabilities to third parties.

Should an uninsured loss or a loss in excess of insured limits occur, the Group could be required to pay compensation and/or lose capital invested in the projects, as well as anticipated future revenue from those projects. The Group would also remain liable for any debt that is with recourse to the Group and may remain liable for any mortgage indebtedness or other financial obligations. Any such loss could adversely affect the results of operations and financial condition of the Group. No assurance can be given that material losses in excess of insurance proceeds will not occur in the future or that adequate insurance coverage for the Group will be available in the future on commercially reasonable terms or at commercially reasonable rates.

In addition, the Group could be held liable for human exposure to dangerous substances in its water supplies or other environmental damage which could be sustained. There can be no guarantee that the costs of any such claims would be fully covered by the insurers or that such insurance coverage will continue to be available in the future. Moreover, insurance cover is not available at a commercially acceptable premium in respect of gradual contamination.

The Group may be involved in legal and other proceedings arising from its operations from time to time.

The Group may be involved from time to time in disputes with various parties involved in the development of its projects such as contractors, sub-contractors, suppliers, construction companies and purchasers. These disputes may lead to legal or other proceedings, and may cause the Group to incur additional costs and delays. In addition, the Group may have disagreements with regulatory bodies in the course of its operations, which may subject it to administrative proceedings and unfavourable orders, directives or decrees that result in financial losses and delay the construction or completion of its projects.

The Group may encounter problems with its business ventures or joint ventures that may affect its business.

The Group has, and expects in the future to have, interests in business ventures or joint ventures in connection with its development plans. Over time, the priorities of the Group and its business partners may diverge and existing joint ventures may no longer be relevant. Hence, the need may arise in the future for reorganisation of existing joint ventures, resulting in the exit of existing business partners and the emergence of new business partners. Any of these and other factors may affect the performance of the Group's business ventures or joint ventures, which may in turn affect the Group's results of operations and financial condition.

The Group's growth will depend on its continuing ability to secure and develop new large-scale projects.

As a large portion of the Group's business is project-based, the Group's profitability is dependent on its ability to secure new profitable projects. The ability of the Group to secure new projects may be based on a number of factors, including having the relevant technical expertise, an established track record in the specific fields, and/or the possession of various licenses and permits. In the event that the Group does not secure adequate new projects, this may have an adverse effect on the Group's business, results of operations and financial condition and prospects.

Risks associated with the collection, treatment and disposal of wastewater create risks different, in some respects, from the Group's water utility operations.

The wastewater collection, treatment and disposal operations of the Group providing water and wastewater services are subject to substantial regulation and involve significant environmental risks. If collection or sewage systems fail, overflow or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages, which may not be recoverable in fees. This risk is most acute during periods of substantial rainfall or flooding, which are the main causes of sewer overflow and system failure. Liabilities resulting from such damage could adversely and materially affect the Group's business, results of operations and financial condition. In the event that the Group is deemed liable for any damage caused by overflow, its losses might not be covered by insurance policies or it may be difficult to secure insurance for this business in the future at acceptable rates.

The Group is subject to risks associated with technological and regulatory changes.

A part of the Group's businesses involves the manufacture of filtration membranes. As a result, the Group is exposed to changes in technology such as the development of water treatment processes and filtration membranes, regulatory requirements from the United States Food and Drug Administration (U.S. FDA) and the European Union's Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment 2002/95/EC (RoHs), as well as applicable standards and certifications from entities such as NSF International (formerly known as National Sanitation Foundation) and the International Organization for Standardization (ISO). Any changes in legislative, regulatory or industrial requirements may render certain of the Group's purification and filtration products and processes obsolete. Acceptance of new products may also be affected by the adoption of new government regulations requiring stricter standards. For example, if a new government regulation requires industrial water discharge to be of a higher standard, and should the Group's water treatment plants not be able to meet such a standard, the Group's performance may be adversely affected.

The Group's ability to anticipate changes in technology and regulatory standards and to develop and introduce new and enhanced products successfully on a timely basis will be a significant factor in the Group's ability to grow and to remain competitive. There can be no assurance that the Group will be able to achieve the technological advances that may be necessary for it to remain competitive or that certain of the Group's products will not become obsolete. In addition, the Group is subject to the risks generally associated with new product introductions and applications, including the lack of market acceptance, delays in development or failure of products to operate properly.

The Group's customers are subject to environmental laws and regulations of the countries in which they operate and they may seek recourse from the Group should there be any violation.

The environmental laws and regulations of the countries in which the Group supports its clients require the Group's customers to meet certain standards and impose liability if these are not met. Though the Group is not directly regulated by these environmental laws and regulations, there is no assurance that the Group's customers or the relevant authorities will not seek recourse from it in the event of non-compliance with such laws and regulations, even if the Group's plants were commissioned and tested to be in compliance with the then-existing standards at the point of handing over to its customers.

In addition, the liabilities and risks imposed on the Group's customers by environmental laws may adversely impact demand for some of the Group's products or services or impose greater liabilities and risks on it, which could also have an adverse effect on the Group's competitive and financial position.

The Group may not be able to protect its processes, technologies and systems against claims by other parties.

The Group has developed designs and applications of its membranes, membrane modules and membrane systems in various industries such as electronics, pharmaceutical and food and beverage. Such applications were the result of the Group's R&D efforts. The Group has applied for relevant patents and trademarks and/or obtained licenses for the use of relevant patents in respect of such designs and applications. The Group will continue to apply for patents as and when the Group determines that it is feasible to do so, based on the results of the Group's R&D.

The Group has also obtained licenses from other patent owners for the use, manufacture, marketing and/or sub-licensing of patented products and processes.

Meanwhile, the Group will not have any legal recourse for the designs and applications which are not patented in the event that such solutions are successfully replicated by third parties. In the event that the applications are replicated, the Group may lose its competitive edge and the Group's turnover and profitability on these applications may be adversely affected.

Furthermore, third parties may subsequently assert claims to certain applications. In such an event, the Group may need to acquire licenses to, or to contest the validity of, issued or pending patents or claims of third parties. There can be no assurance that any license acquired under such patents would be made available to the Group on acceptable terms, if at all, or that the Group would prevail in any such contest.

In addition, the Group could incur substantial costs in defending itself in lawsuits brought against the Group for alleged infringement of another party's patents. The Group relies on trade secrets, proprietary know-how and technology, which it seeks to protect, in part, by confidentiality agreements with the Group's prospective working partners and collaborators, employees and consultants.

There can be no assurance that these agreements will not be breached, that the Group will have adequate remedies for any breach, or that the Group's trade secrets and proprietary know-how will not otherwise become known or be independently discovered by others.

The Issuer and its subsidiaries are dependent on key personnel and the availability of skilled engineers.

The Issuer and its subsidiaries are dependent on the continuous efforts of its senior management, in particular, Ms Olivia Lum, Group President & Chief Executive Officer, Mr Sam Ong, Group Executive Vice President & Group Deputy Chief Executive Officer, Mr Cho Wee Peng, Group Executive Vice President & Group Chief Financial Officer, Ms Winnifred Heap, Group Executive Vice President, Capital Markets, Mr Oon Jin Teik, Group Executive Vice President & Chief Executive Officer, China, Dr Andrew Ngiam, Group Executive Vice President & Group Chief Operating Officer, Mr Foo Hee Kiang, Group Executive Vice President, Commercial Contracts & Industry Relations and Mr Peter Wu, Group Senior Managing Director & Chief Executive Officer, Galaxy. The loss of the services of any one or more of these senior managers may have an adverse effect on the Issuer's and/or its subsidiaries' ability to achieve its objectives.

Owing to the specialised nature of the Group's business activities, there is a limited supply of skilled engineers. To the extent that the Group is unable to recruit and/or retain the required number of skilled engineers to meet the expected increase in both production and R&D, its turnover and profitability could be negatively affected.

The Group may encounter risks associated with its conduct of business in the MENA region and the PRC.

As the Group derives a substantial portion of its revenue from the MENA region and the PRC, it faces risks associated with the conduct of business in the countries in the MENA region and the PRC.

The Group recognises that although the existing infrastructure and the financial and legal systems of the countries in the MENA region and the PRC have developed in line with the growth in their respective economies and industrial progress, such systems may not be as developed as those of other nations. The limitations in the infrastructure and the financial and legal systems could limit the growth rate that the Issuer and its subsidiaries could enjoy in these countries.

Furthermore, any significant change in the existing laws and regulations of the countries in the MENA region and/or the PRC may adversely affect the Group. The Group's business and operations in these countries are governed by their respective legal systems, and any change in the existing laws, regulations and legal system of these countries could require the Group to modify the way it conducts its business in these countries. This may also result in increased costs (including cost incurred to comply with any change in laws or regulations), as well as delays in the obtaining of licences and approvals from the relevant regulators.

The Group's experience in the implementation, interpretation and enforcement of the laws and regulations of, and commercial contracts, undertakings and commitments entered into in some of the countries in the MENA region and the PRC may also be limited. An application for approval to conduct certain activities in a country in the MENA region and/or the PRC may also be unduly protracted with the involvement of several government agencies, or the enforcement of laws and regulations and the outcome of a dispute resolution may not be as predictable as in more developed jurisdictions. The Group's business and operations and hence, the Issuer's financial performance, may be adversely affected by these delays.

The Group is also subject to foreign exchange controls in some of the countries in the MENA region and the PRC, which may limit the Group's ability to utilise its revenue effectively. In addition, the Issuer's subsidiaries in these regions are subject to relevant rules and regulations relating to currency conversion.

Water-related infrastructure businesses are often regulated. The Group's businesses are subject to the applicable laws and regulations of the countries where they are located in, and may be adversely affected by any changes in the applicable laws and regulations.

Changes in government policies, laws or regulations or their application affecting the business activities of the relevant Group's businesses may adversely affect its operating results, business and financial condition. There may be a need to incur additional costs or limit business activities to comply with new laws or regulations, such as stricter environmental or safety controls.

For instance, the Group's strategy is to invest in water-related infrastructure assets globally. Changes in laws and regulations of these countries or the implementation thereof may require the Group to obtain additional approvals, certificates, permits or licences from the relevant government authorities for the relevant Group companies to carry on its operations in these countries. The Group may be required to incur additional costs to ensure that it complies with any of such changes. In addition, there is no assurance that the Group will be able to obtain the additional approvals, certificates, permits or licences promptly or at all, and may be required to cease operations because it lacks such approvals, certificates, permits or licences. Such changes may add to the costs of carrying on business, which could materially and adversely affect the Group's financial performance, and potentially affect the Group's operating results, business and financial condition.

Environmental risks may adversely affect the Group's water business, profitability or financial condition.

The Group's water business is exposed to environmental risks due to the nature of its operations. Water supplies may be exposed to pollution, including pollution from the development of naturally occurring compounds, or contamination resulting from man-made sources. Should any such pollution or contamination occur in respect of the water supply of water treatment facilities, including those relating to the treatment of wastewater, raw water and water for human consumption, and the affected water treatment facility is unable to substitute a water supply from an uncontaminated water source, or to adequately and cost-effectively treat the contaminated water source, this could have an adverse effect on the business profitability and accordingly, the financial position of the relevant Group company.

Further, the Group's capital and operating costs have increased substantially as a result of increases in environmental regulation arising from improved detection technology and increases in the cost of disposing of residuals from the Group's water treatment plants, upgrading and building new water treatment plants, monitoring compliance activities and addressing contamination issues. There is no assurance that the Group will be able to recover these costs from parties responsible or potentially responsible for contamination. The Group's ability to recover these types of costs depends on a variety of factors, including the willingness of potentially responsible parties to settle litigation (or otherwise address the contamination) and the extent and magnitude of the contamination. Also, the Group can give no assurance regarding the adequacy of any such recovery of these costs.

The water supply to the Group's water treatment facilities is also at risk of water shortages caused by prolonged periods of drought. If there are supply shortfalls caused by prolonged periods of drought, additional costs may be incurred by the relevant Group entity to provide emergency reinforcement of supplies to areas facing shortage. Restrictions on water use may adversely affect the Group's revenues from metered customers.

Land or properties belonging to the Group may be acquired compulsorily.

The Group has expanded over the past decade into diversified locations around the world, with operations and projects in Southeast Asia, the PRC, India and the MENA region. Certain laws may allow for the land or properties acquired by the Group to be acquired compulsorily by the respective national, city or provincial governments. Such compulsory acquisitions of any of the land and/or properties acquired by the Group would have an adverse effect on the financial condition and operating results of the relevant Group entity, and correspondingly, the Group.

The Group's businesses are dependent on the policies of the respective national, city or provincial governments.

A significant part of the Group's businesses involves environmental applications of its proprietary membranes. The demand for these environmental solutions is heavily dependent on the policies of the respective national, city or provincial governments from time to time. Accordingly, any changes in the policies of the applicable national, city or provincial governments from time to time with regards to the Group's businesses will have an effect on the Group's business, financial condition and results of operations.

The Group relies on counterparties to perform their obligations.

The Group has arrangements with counterparties, such as offtakers under the respective WPAs, project owners with whom the Group enters into EPC and O&M contracts, and suppliers of key pumps and reverse osmosis membranes, which are essential to the operation of its plants. If any of the Group's key counterparties fails to perform its obligations or if the credit-worthiness of any of these counterparties deteriorates, the Group's operations, business and financial condition may be materially and adversely affected. Furthermore, in the case of suppliers, significant costs and time may have to be spent in order to find a replacement provider of the supplies or services. In addition, any material increase in the price charged to the Group for these services or supplies would adversely and materially affect the Group's operations, business and financial condition.

PURPOSE OF THE PROGRAMME AND USE OF PROCEEDS

The net proceeds arising from the issue of Notes under the Programme (after deducting issue expenses) will be used for financing the general corporate funding requirements or investments of the Issuer and its subsidiaries, including refinancing of existing borrowings, working capital, capital expenditure and other general funding requirements.

CLEARING AND SETTLEMENT

Clearance and Settlement under the Depository System

In respect of Notes which are accepted for clearance by CDP in Singapore, clearance will be effected through an electronic book-entry clearance and settlement system for the trading of debt securities (“**Depository System**”) maintained by CDP. Notes that are to be listed on the SGX-ST may be cleared through CDP.

CDP, a wholly-owned subsidiary of Singapore Exchange Limited, is incorporated under the laws of Singapore and acts as a depository and clearing organisation. CDP holds securities for its accountholders and facilitates the clearance and settlement of securities transactions between accountholders through electronic book-entry changes in the securities accounts maintained by such accountholders with CDP.

In respect of Notes which are accepted for clearance by CDP, the entire issue of the Notes is to be held by CDP in the form of a global note for persons holding the Notes in securities accounts with CDP (“**Depositors**”). Delivery and transfer of Notes between Depositors is by electronic book-entries in the records of CDP only, as reflected in the securities accounts of Depositors. Although CDP encourages settlement on the third business day following the trade date of debt securities, market participants may mutually agree on a different settlement period if necessary.

Settlement of over-the-counter trades in the Notes through the Depository System may only be effected through certain corporate depositors (“**Depository Agents**”) approved by CDP under the Companies Act to maintain securities sub-accounts and to hold the Notes in such securities sub-accounts for themselves and their clients. Accordingly, Notes for which trade settlement is to be effected through the Depository System must be held in securities sub-accounts with Depository Agents. Depositors holding the Notes in direct securities accounts with CDP, and who wish to trade Notes through the Depository System, must transfer the Notes to be traded from such direct securities accounts to a securities sub-account with a Depository Agent for trade settlement.

CDP is not involved in money settlement between Depository Agents (or any other persons) as CDP is not a counterparty in the settlement of trades of debt securities. However, CDP will make payment of interest and repayment of principal on behalf of issuers of debt securities.

Although CDP has established procedures to facilitate transfer of interests in the Notes in global form among Depositors, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Issuing and Paying Agent or any other agent will have the responsibility for the performance by CDP of its obligations under the rules and procedures governing its operations.

Clearance and Settlement under Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants, thereby eliminating the need for physical movements of certificates and any risks from lack of simultaneous transfer. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deals with domestic securities markets in several countries through established depository and custodial relationships. The respective systems of Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems which enables their respective participants to settle trades with one another. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to other financial institutions, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

A participant's overall contractual relations with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg act under those rules and operating procedures only on behalf of their respective participants, and have no record of, or relationship with, persons holding any interests through their respective participants. Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the relevant Paying Agent, to the cash accounts of the relevant Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

SINGAPORE TAXATION

The statements below are general in nature and are based on certain aspects of current tax laws in Singapore and administrative guidelines issued by MAS in force as at the date of this Information Memorandum and are subject to any changes in such laws or administrative guidelines, or the interpretation of those laws or guidelines, occurring after such date, which changes could be made on a retroactive basis. These laws and guidelines are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below. Neither these statements nor any other statements in this Information Memorandum are intended or are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. The statements made herein do not purport to be a comprehensive or exhaustive description of all the tax considerations that may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or financial institutions in Singapore which have been granted the relevant Financial Sector Incentive tax incentive(s)) may be subject to special rules or tax rates. Prospective holders of the Notes are advised to consult their own tax advisers as to the Singapore or other tax consequences of the acquisition, ownership of or disposal of the Notes, including, in particular, the effect of any foreign, state or local tax laws to which they are subject. It is emphasised that neither the Issuer nor any other persons involved in the Programme accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Notes.

1. Interest and Other Payments

Subject to the following paragraphs, under Section 12(6) of the Income Tax Act, Chapter 134 of Singapore (the "ITA"), the following payments are deemed to be derived from Singapore:

- (a) any interest, commission, fee or any other payment in connection with any loan or indebtedness or with any arrangement, management, guarantee, or service relating to any loan or indebtedness which is (i) borne, directly or indirectly, by a person resident in Singapore or a permanent establishment in Singapore (except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore or any immovable property situated outside Singapore) or (ii) deductible against any income accruing in or derived from Singapore; or
- (b) any income derived from loans where the funds provided by such loans are brought into or used in Singapore.

Such payments, where made to a person not known to the paying party to be a resident in Singapore for tax purposes, are generally subject to withholding tax in Singapore. The rate at which tax is to be withheld for such payments (other than those subject to the 15.0 per cent. final withholding tax described below) to non-resident persons (other than non-resident individuals) is 17.0 per cent. with effect from the year of assessment 2010. The applicable rate for non-resident individuals is 20.0 per cent. However, if the payment is derived by a person not resident in Singapore otherwise than from any trade, business, profession or vocation carried on or exercised by such person in Singapore and is not effectively connected with any permanent establishment in Singapore of that person, the payment is subject to a final withholding tax of 15.0 per cent. The rate of 15.0 per cent. may be reduced by applicable tax treaties.

However, certain Singapore-sourced investment income derived by individuals from financial instruments is exempt from tax, including:

- (a) interest from debt securities derived on or after 1 January 2004;
- (b) discount income (not including discount income arising from secondary trading) from debt securities derived on or after 17 February 2006; and
- (c) prepayment fee, redemption premium and break cost from debt securities derived on or after 15 February 2007,

except where such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession.

In addition, as the Programme as a whole is arranged by DBS Bank Ltd. and Standard Chartered Bank, each of which is a Financial Sector Incentive (Bond Market) Company (as defined in the ITA), any tranche of the Notes which are debt securities issued during the period from the date of this Information Memorandum to 31 December 2013 ("**Relevant Notes**") would be "qualifying debt securities" for the purposes of the ITA, to which the following treatment shall apply:

- (i) subject to certain prescribed conditions having been fulfilled (including the furnishing by the Issuer, or such other person as the Comptroller of Income Tax in Singapore (the "**Comptroller**") may direct, of a return on debt securities for the Relevant Notes within such period as the Comptroller may specify and such other particulars in connection with the Relevant Notes as the Comptroller may require to the Comptroller and MAS and the inclusion by the Issuer in all offering documents relating to the Relevant Notes of a statement to the effect that where interest, discount income, prepayment fee, redemption premium or break cost is derived by a person who is not resident in Singapore and who carries on any operation in Singapore through a permanent establishment in Singapore, the tax exemption for qualifying debt securities shall not apply if the non-resident person acquires the Relevant Notes using funds from that person's operations through the Singapore permanent establishment), interest, discount income (not including discount income arising from secondary trading), prepayment fee, redemption premium and break cost (collectively, the "**Qualifying Income**") from the Relevant Notes, derived by a holder who is not resident in Singapore and who (aa) does not have any permanent establishment in Singapore or (bb) carries on any operation in Singapore through a permanent establishment in Singapore but the funds used by that person to acquire the Relevant Notes are not obtained from such person's operations through a permanent establishment in Singapore, are exempt from Singapore tax;
- (ii) subject to certain conditions having been fulfilled (including the furnishing by the Issuer, or such other person as the Comptroller may direct, of a return on debt securities for the Relevant Notes within such period as the Comptroller may specify and such other particulars in connection with the Relevant Notes as the Comptroller may require to the Comptroller and MAS), Qualifying Income from the Relevant Notes derived by any company or body of persons (as defined in the ITA) in Singapore is subject to tax at a concessionary rate of 10.0 per cent.; and
- (iii) subject to:
 - (aa) the Issuer including in all offering documents relating to the Relevant Notes a statement to the effect that any person whose interest, discount income, prepayment fee, redemption premium or break cost derived from the Relevant Notes is not exempt from tax shall include such income in a return of income made under the ITA; and
 - (bb) the Issuer, or such other person as the Comptroller may direct, furnishing to the Comptroller and MAS a return on debt securities for the Relevant Notes within such period as the Comptroller may specify and such other particulars in connection with the Relevant Notes as the Comptroller may require,

Qualifying Income derived from the Relevant Notes is not subject to withholding of tax by the Issuer.

However, notwithstanding the foregoing:

- (A) if during the primary launch of any tranche of Relevant Notes, the Relevant Notes of such tranche are issued to fewer than four persons and 50.0 per cent. or more of the issue of such Relevant Notes is beneficially held or funded, directly or indirectly, by related parties of the Issuer, such Relevant Notes would not qualify as "qualifying debt securities"; and

- (B) even though a particular tranche of Relevant Notes are “qualifying debt securities”, if, at any time during the tenure of such tranche of Relevant Notes, 50.0 per cent. or more of the issue of such Relevant Notes is held beneficially or funded, directly or indirectly, by any related party(ies) of the Issuer, Qualifying Income derived from such Relevant Notes held by:
- (i) any related party of the Issuer; or
 - (ii) any other person where the funds used by such person to acquire such Relevant Notes are obtained, directly or indirectly, from any related party of the Issuer,

shall not be eligible for the tax exemption or concessionary rate of tax as described above.

The term “**related party**”, in relation to a person, means any other person who, directly or indirectly, controls that person, or is controlled, directly or indirectly, by that person, or where he and that other person, directly or indirectly, are under the control of a common person.

The terms “**break cost**”, “**prepayment fee**” and “**redemption premium**” are defined in the ITA as follows:

“break cost”, in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by any loss or liability incurred by the holder of the securities in connection with such redemption;

“prepayment fee”, in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by the terms of the issuance of the securities; and

“redemption premium”, in relation to debt securities and qualifying debt securities, means any premium payable by the issuer of the securities on the redemption of the securities upon their maturity.

References to “break cost”, “prepayment fee” and “redemption premium” in this Singapore tax disclosure have the same meaning as defined in the ITA.

Notwithstanding that the Issuer is permitted to make payments of interest, discount income, prepayment fee, redemption premium and break cost in respect of the Relevant Notes without deduction or withholding for tax under Section 45 or Section 45A of the ITA, any person whose interest, discount income, prepayment fee, redemption premium or break cost derived from the Relevant Notes is not exempt from tax is required to include such income in a return of income made under the ITA.

The 10 per cent. concessionary tax rate for qualifying debt securities does not apply to persons who have been granted the financial sector incentive (standard-tier) status (within the meaning of Section 43N of the ITA).

The Qualifying Debt Securities Plus Scheme (“**QDS Plus Scheme**”) has also been introduced as an enhancement of the Qualifying Debt Securities Scheme. Under the QDS Plus Scheme, subject to certain conditions having been fulfilled (including the submission by the issuer or such other person as the Comptroller may direct, of a return on debt securities in respect of the qualifying debt securities within such period as the Comptroller may specify and such other particulars in connection with the qualifying debt securities as the Comptroller may require to the Comptroller and the MAS), income tax exemption is granted on interest, discount income (not including discount income arising from secondary trading), prepayment fee, redemption premium and break cost derived by any investor from qualifying debt securities (excluding Singapore Government Securities) which:

- (a) are issued during the period from 16 February 2008 to 31 December 2013;
- (b) have an original maturity of not less than 10 years;

- (c) cannot be redeemed, called, exchanged or converted within 10 years from the date of their issue; and
- (d) cannot be re-opened with a resulting tenure of less than 10 years to the original maturity date.

In determining an investor's income that is to be exempted from tax under the QDS Plus Scheme, prescribed conditions apply in relation to how the investor's losses, expenses, capital allowances and donations which are attributable to exempt income are to be treated.

However, even if a particular tranche of Relevant Notes are "qualifying debt securities" which qualify under the QDS Plus Scheme, if, at any time during the tenure of such tranche of Relevant Notes, 50 per cent. or more of the issue of such Relevant Notes is held beneficially or funded, directly or indirectly, by any related party(ies) of the Issuer, interest, discount income, prepayment fee, redemption premium and break cost from such Relevant Notes derived by:

- (i) any related party of the Issuer; or
- (ii) any other person where the funds used by such person to acquire such Relevant Notes are obtained, directly or indirectly, from any related party of the Issuer,

shall not be eligible for the tax exemption under the QDS Plus Scheme as described above.

2. Capital Gains

Any gains considered to be in the nature of capital made from the sale of the Notes will not be taxable in Singapore. However, any gains derived by any person from the sale of the Notes which are gains from any trade, business, profession or vocation carried on by that person, if accruing in or derived from Singapore, may be taxable as such gains are considered revenue in nature.

Holders of the Notes who apply or who are required to apply Singapore Financial Reporting Standard 39 ("**FRS 39**"), may, for Singapore income tax purposes be required to recognise gains or losses (not being gains or losses in the nature of capital) on the Notes, irrespective of disposal, in accordance with FRS 39. Please see the section below on "Adoption of FRS 39 Treatment for Singapore Income Tax Purposes".

3. Adoption of FRS 39 Treatment for Singapore Income Tax Purposes

The Inland Revenue Authority of Singapore has issued a circular entitled "Income Tax Implications Arising from the Adoption of FRS 39 - Financial Instruments: Recognition and Measurement" (the "**FRS 39 Circular**"). The ITA has since been amended to give effect to the FRS 39 Circular.

The FRS 39 Circular generally applies, subject to certain "opt-out" provisions, to taxpayers who are required to comply with FRS 39 for financial reporting purposes.

Holders of the Notes who may be subject to the tax treatment under the FRS 39 Circular should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding or disposal of the Notes.

4. Estate Duty

Singapore estate duty has been abolished with respect to all deaths occurring on or after 15 February 2008.

SUBSCRIPTION, PURCHASE AND DISTRIBUTION

The Programme Agreement provides for Notes to be offered from time to time through one or more Dealers. The price at which a Series or Tranche will be issued will be determined prior to its issue between the Issuer and the relevant Dealer(s). The obligations of the Dealers under the Programme Agreement will be subject to certain conditions set out in the Programme Agreement. Each Dealer (acting as principal) will subscribe or procure subscribers for Notes from the Issuer pursuant to the Programme Agreement.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act ("**Regulation S**") or pursuant to an exemption from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

Each Dealer has represented, warranted and agreed that it has offered and sold the Notes of any identifiable Tranche, and shall offer and sell the Notes of any identifiable Tranche (i) as part of their distribution at any time and (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer and each relevant Dealer, by the Issuing and Paying Agent or, in the case of a Syndicated Issue (as defined in the Programme Agreement), the Lead Manager (as defined in the Programme Agreement), only in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and shall comply with the offering restrictions requirement of Regulation S. Each Dealer has agreed to notify the Issuing and Paying Agent or, in the case of a Syndicated Issue, the Lead Manager when it has completed the distribution of its portion of the Notes of any identifiable Tranche so that the Issuing and Paying Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Notes of that tranche and notify the other Relevant Dealers of the end of the distribution compliance period. Each Dealer has agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of any identifiable Tranche of Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Hong Kong

Each Dealer has represented, warranted and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the

securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Dealer has acknowledged that this Information Memorandum has not been registered as a prospectus with the MAS. Accordingly, each Dealer has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Information Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

General

Each Dealer understands that no action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Information Memorandum or any other document or any Pricing Supplement, in any country or jurisdiction (other than Singapore) where action for that purpose is required.

Each Dealer has agreed that it will comply with all applicable securities laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or any interest therein or rights in respect thereof or has in its possession or distributes, any other document or any Pricing Supplement. No Dealer will directly or indirectly offer, sell or deliver Notes or any interest therein or rights in respect thereof or distribute or publish any prospectus, circular, advertisement or other offering material (including, without limitation, this Information Memorandum) in any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations, and all offers, sales and deliveries of Notes or any interest therein or rights in respect thereof by it will be made on the foregoing terms. In connection with the offer, sale or delivery by any Dealer of any Notes or any interest therein or rights in respect thereof, the Issuer shall not have responsibility for, and each Dealer will obtain, any consent, approval or permission required in and each Dealer will comply with the laws and regulations in force in, any jurisdiction to which it is subject or from which it may make any such offer or sale.

Any person who may be in doubt as to the restrictions set out in the SFA or the laws, regulations and directives in each jurisdiction in which it subscribes for, purchases, offers, sells or delivers the Notes or any interest therein or rights in respect thereof and the consequences arising from a contravention thereof should consult his own professional advisers and should make his own inquiries as to the laws, regulations and directives in force or applicable in any particular jurisdiction at any relevant time.

GENERAL AND OTHER INFORMATION

INFORMATION ON DIRECTORS

1. (a) The name and position of each of the Directors are set out below:

Name	Position
Ms Olivia Lum Ooi Lin	Group President and CEO
Mr Teo Kiang Kok	Non-Executive Independent Director
Mr Lee Joo Hai	Non-Executive Independent Director
Mr Gay Chee Cheong	Non-Executive Independent Director
Mr Christopher Murugasu	Non-Executive Independent Director
Mr Rajsekar Kuppuswami Mitta	Non-Executive Independent Director
Mr Simon Tay	Independent Director
Mr Gary Kee	Non-Executive and Non-Independent Director

- (b) The business experience of each of the Directors is as follows:

Ms Olivia Lum Ooi Lin
Group President and CEO

Ms Lum started corporate life as a chemist with Glaxo Pharmaceutical and left in 1989 to start up Hydrochem (S) Pte Ltd, the precursor to Hyflux Ltd.

Ms Lum is the driving force behind Hyflux's growth and business expansion, responsible for policy and strategy formulation and corporate direction.

A former Nominated Member of Singapore Parliament, Ms Lum holds several positions in the public service. Presently, she sits on the board of a number of companies. She is a Member of the NUS Board of Trustees, Temasek Life Sciences Laboratory Limited as well as National University Health System. In addition to her commitments in Hyflux, Ms Lum is also a member of the Singapore-Tianjin Economic & Trade Council, and the Singapore-Jiangsu Cooperation Council as well as the President of the Singapore Compact for Corporate Social Responsibility.

Among the many accolades Ms Lum has received for her entrepreneurial achievements are: the Winner of the Regional Growth Award by Nihon Keizai Shimbun at the 11th Nikkei Asia Prize 2006, and most recently the Ernst & Young World Entrepreneur of the Year 2011.

Ms Lum holds an Honours degree in Science from the National University of Singapore.

Mr Teo Kiang Kok
Non-Executive Independent Director

Mr Teo was admitted to the Singapore bar in 1983 and has been a partner of Shook Lin & Bok LLP ("SLB") since 1988. Prior to joining SLB in 1987, he worked for brief periods as an associate with an international law firm and as a corporate finance executive with an international investment bank. He obtained his Bachelor of Law (Honours) degree from the University of Hull and is a Barrister-at-Law from Lincoln's Inn.

Mr Teo currently heads the Corporate & Corporate Finance and China practices of SLB. In his 28 years of practice, he has advised on a wide range of corporate finance transactions, particularly securities offerings, mergers and acquisitions, joint ventures and strategic investments. He has significant experience in equity capital markets and has advised on many public offerings of securities by Singapore and foreign companies including those

from the PRC. Mr Teo also has expertise with mergers and acquisitions of Singapore and foreign companies including those from the PRC. Mr Teo's regional practice includes foreign investment work in and out of Singapore, the PRC, India and the ASEAN countries.

In the course of his legal practice, Mr Teo has advised listed companies extensively on corporate law and regulatory compliance and in particular, the requirements of the SGX-ST.

Mr Lee Joo Hai

Non-Executive Independent Director

Mr Lee has been a Non-Executive Independent Director of Hyflux Ltd since December 2000. He is also the Chairman of the Audit Committee and a member of the Remuneration and Risk Management Committees.

Mr Lee is a CPA and a member of both the Institute of Certified Public Accountants of Singapore and the Institute of Chartered Accountants in England and Wales. He is currently a partner in a public accounting firm in Singapore and has more than 20 years of experience in accounting and auditing.

Mr Lee also sits on the boards of other listed companies, including Lung Kee (Bermuda) Holdings Ltd.

Mr Gay Chee Cheong

Non-Executive Independent Director

Mr Gay has been a Non-Executive Independent Director of Hyflux Ltd since August 2001. He is also the Chairman of the Nominating Committee, as well as a member of the Remuneration, Audit and Executive Committees.

He is a member of the Board of Governors of Raffles University and Temasek Polytechnic, an Advisory Board member of the Lee Kong Chian School of Business at Singapore Management University, a member of the Entrepreneurship Committee at National University of Singapore and a Trustee of the United World College of South East Asia Foundation.

Mr Gay co-founded and was the CEO of 2G Capital Private Limited, a private investment company investing in equities and private companies in the Asia Pacific economies. The company was awarded Highest Net Profit in 2006 and Net Profit Excellence in 2007 in the annual SME 500 ranking.

Mr Gay graduated from the Royal Military Academy ("RMA"), Sandhurst and the Royal Military College of Science, Shrivenham, United Kingdom. At RMA, Sandhurst, Mr Gay won the Nigeria Prize for Best Overseas Student Officer and at the Singapore Command and Staff College, the Top Student Prize.

Mr Gay holds Honours degrees in Electronics Engineering from the Royal Military College of Science, Shrivenham, United Kingdom, and in Economics from University of London. He also has a Masters of Business Administration from the National University of Singapore.

Mr Christopher Murugasu

Non-Executive Independent Director

Mr Murugasu has been a director of Hyflux Ltd since February 2005.

Mr Murugasu is also a member of the Risk Management and Remuneration Committees.

Previously Senior Vice President for Corporate Services at Hyflux Ltd, he was responsible for the human resources, procurement and general administration functions. Prior to joining Hyflux, Mr Murugasu had accumulated over 15 years of experience in the public sector as well as with a foreign bank.

He holds an Honours degree in Computing Science from Imperial College, United Kingdom, and a Master's degree from the London School of Economics, United Kingdom.

Mr Rajsekar Kuppuswami Mitta

Non-Executive Independent Director

Mr Mitta has been a Non-Executive Independent Director of Hyflux Ltd since April 2007. He is also Chairman of the Risk Management Committee.

Mr Mitta is currently the Chairman of Essential Value Associates Pte Ltd, a boutique consulting firm that works with selected Chairmen and CEOs who seek to create lasting change to develop high growth sustainable businesses with quality governance.

Mr Mitta was Chairman of Arthur D Little Asia and a Senior Member of Booz Allen Hamilton. He has advised some of the world's best consumer goods and customer-intensive companies, technology-intensive corporations and regional governments. His client list includes multinationals like PepsiCo, Gillette, Kelloggs, and the Governments of Singapore, Malaysia, Indonesia, Philippines, Australia and India. He has also worked with regional conglomerates like Hutchisons (HK), Jardines (HK), Bakrie Group (Indonesia), Reliance (India), Amex, Citicorp, British Airways and telecom operators like Optus, Orange, Singapore Telecom and Deutsche Telekom.

Prior to his consulting experience of over 20 years, Mr Mitta worked in senior marketing roles with Pepsico (US and Cyprus) and Mars Inc. (UK).

Mr Mitta is a seasoned negotiator and deal maker with well developed cross cultural sensitivity developed through living and working across diverse countries and consulting with an expansive list of clients. His main areas of professional interest are in strategy development and value extraction through enhancing marketing and sales effectiveness, the competitive repositioning of brands/services and issues relating to managing change within organisations.

Mr Mitta holds a Bachelors degree in Chemical Engineering from the University of Bombay, India and a Masters in Business Administration from the Indian Institute of Management, Ahmedabad.

Mr Simon Tay

Independent Director

Mr Tay holds a Masters in Law from Harvard Law School, an LLB Hons from the National University of Singapore, and is a qualified advocate and solicitor of the Supreme Court of Singapore. He is an Associate Professor and he teaches international law at the Faculty of Law of the National University of Singapore, with a focus on international environmental law.

He is concurrently Chairman of the Singapore Institute of International Affairs, an independent think tank, and Senior Consultant with the WongPartnership law firm, giving special attention to the green economy practice.

From 2002 to 2008, Mr Tay chaired the National Environment Agency and was previously selected for three terms as Nominated Member of the Singapore Parliament (1997 to 2001). He has served to lead public consultations on Singapore in the 21st century, the national concept plan, and the Singapore Green Plan 2012. In 2006, he received the Public Service Medal (Pingat Baki Masyarakat, PBM), a Singaporean National Day award.

Mr Gary Kee

Non-Executive and Non-Independent Director

Mr Kee was the Chief Executive Officer and Non-Independent Executive Director of Hyflux Water Trust Management Pte Ltd. Prior to that, he held numerous senior regional management positions in Finance, Operations and Strategic Business Development in his 23 year tenure at Hewlett Packard. He last served as Director, Head of Strategy and Corporate Development for Asia Pacific & Japan.

Before joining Hewlett Packard, Mr Kee was a Management Consultant with Arthur Andersen Associates (now known as Accenture). Mr Kee has also served as a Board Director of various companies and JTC Corporation.

Mr Kee holds a Bachelor of Commerce from McMaster University in Canada and a Masters of Business Administration from the University of Texas at Arlington in the USA.

2. As at the Latest Practicable Date, the Directors are not related by blood or marriage to one another.

As at the Latest Practicable Date, the Directors are not related to any substantial shareholder of the Issuer, save that Ms Olivia Lum Ooi Lin is a substantial shareholder of the Issuer, has an employment relationship with a subsidiary and has received remuneration in that capacity.

3. There were no material contracts of the Issuer or its subsidiaries involving the interests of any Director still subsisting at the end of the financial year ended 31 December 2009 or the financial year ended 31 December 2010.
4. The interests of the Directors and the substantial shareholders of the Issuer in the ordinary shares and the preference shares of the Issuer as at the Latest Practicable Date are as follows:

ORDINARY SHARES

Directors	Ordinary Shares			
	Direct Interest		Deemed Interest	
	No. of Ordinary Shares	%	No. of Ordinary Shares	%
Olivia Lum Ooi Lin	252,351,211	29.32	15,000,000	1.74
Teo Kiang Kok	–	–	375,000	0.04
Gay Chee Cheong	1,000,000	0.12	–	–
Christopher Murugasu	729,843	0.08	180,000	0.02

CLASS A CUMULATIVE PREFERENCE SHARES

Directors	Class A Cumulative Preference Shares			
	Direct Interest		Deemed Interest	
	No. of Class A Cumulative Preference Shares	%	No. of Class A Cumulative Preference Shares	%
Olivia Lum Ooi Lin	8,020	0.200	–	–
Teo Kiang Kok	3,000	0.075	–	–
Gay Chee Cheong	12,000	0.300	–	–
Christopher Murugasu	1,000	0.025	–	–
Rajsekar Kuppuswami Mitta	–	–	20,000	0.500

SUBSTANTIAL SHAREHOLDERS – ORDINARY SHARES

Name of Shareholder	Direct Interest	Deemed Interest	%
Olivia Lum Ooi Lin	252,351,211	15,000,000	31.07
Mondrian Investment Partners Limited	–	43,463,248	5.05

SHARE CAPITAL

- As at the date of this Information Memorandum, there is only one class of ordinary shares and two classes of preference shares in the Issuer. The rights and privileges attached to the ordinary shares and the preference shares are stated in the Articles of Association of the Issuer.
- The issued share capital of the Issuer as at the Latest Practicable Date is as follows:

Share Designation	Issued Share Capital	
	Number of Shares	Amount
Ordinary Shares	861,037,364	S\$211,467,392.97
Class A Cumulative Preference Shares	4,000,000	S\$400,000,000.00

BORROWINGS

- Save as disclosed in Appendix V, the Group had as at 31 March 2011 no other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trading bills) or acceptance credits, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

WORKING CAPITAL

- After taking into account the present banking facilities and the net proceeds of the issue of the Notes, the Issuer is expected to have adequate working capital for their present requirements.

CHANGES IN ACCOUNTING POLICIES

- There has been no significant change in the accounting policies of the Issuer since its audited financial accounts for the year ended 31 December 2010.

LITIGATION

10. There are no legal or arbitration proceedings pending or threatened against the Issuer or any of its subsidiaries the outcome of which may have or have had during the 12 months prior to the date of this Information Memorandum a material adverse effect on the financial position of the Issuer and its subsidiaries.

MATERIAL ADVERSE CHANGE

11. There has been no material adverse change in the financial condition or business of the Issuer or the Issuer and its subsidiaries since 31 December 2010.

CONSENTS

12. KPMG LLP has given and has not withdrawn its written consent to the issue of this Information Memorandum with the references herein to their respective names and, where applicable, reports in the form and context in which they appear in this Information Memorandum.

DOCUMENTS AVAILABLE FOR INSPECTION

13. Copies of the following documents may be inspected at the registered office of the Issuer at 202 Kallang Bahru, Hyflux Building, Singapore 339339 during normal business hours for a period of six months from the date of this Information Memorandum:
 - (a) the Memorandum and Articles of Association of the Issuer;
 - (b) the Trust Deed; and
 - (c) the audited accounts of the Issuer and its subsidiaries for the financial year ended 31 December 2010 and the audited accounts of the Issuer and its subsidiaries for the financial year ended 31 December 2009.

FUNCTIONS, RIGHTS AND OBLIGATIONS OF THE TRUSTEE

14. The functions, rights and obligations of the Trustee are set out in the Trust Deed.

LIST OF SIGNIFICANT SUBSIDIARIES

The details of the significant subsidiaries of the Issuer as at 31 December 2010 are as follows:

Name of Companies	Principal activities	Country of Incorporation and place of business	Effective equity interest held	
			2010 %	2009 %
Held by the Issuer				
Hydrochem (S) Pte Ltd	EPC, installation, testing, commissioning, operation and maintenance of liquid treatment plants	Singapore	100	100
Hyflux Membrane Manufacturing (S) Pte Ltd	Manufacture of membrane systems	Singapore	100	100
SinoSpring Utility Ltd	Investment holding	British Virgin Islands	100	100
Spring China Utility Ltd	Investment holding	British Virgin Islands	100	100
Held through subsidiaries				
Hydrochem Engineering (Shanghai) Co., Ltd	EPC, installation, testing, and commissioning of industrial liquid separation and treatment systems	PRC	100	100
Hyflux CEPAration B.V.	Manufacturing, developing and trading of ceramic hollow membranes	The Netherlands	100	100
Hyflux Filtech (Shanghai) Co., Ltd	EPC, installation, testing, and commissioning of industrial liquid separation and treatment systems	PRC	71	71
Hyflux Hi-Tech Product (Yangzhou) Co., Ltd	Manufacture and sale of manufactured equipment and parts for membrane filtration technology	PRC	100	100
Hyflux NewSpring Construction Engineering (Shanghai) Co., Ltd	EPC, installation, testing, commissioning, operation and maintenance of liquid treatment plants	PRC	100	100
Hyflux Unitech (Shanghai) Co., Ltd	EPC, installation, testing, commissioning of industrial liquid separation and treatment systems	PRC	71	71
Lube Oil Refining Co., LLC	Production, collection and processing of lube oil	Kingdom of Saudi Arabia	95	83

Sinolac (Singapore) Pte. Ltd.	Design, research, develop, manufacture, sell, distribute, import and export and to deal in all kinds of products, devices, components, systems and others, in connection with the biotechnology, life sciences and related industries	Singapore	100	51
Hyflux Engineering (Shanghai) Co., Ltd	Operation and maintenance of liquid treatment plants and sale of treated liquids	PRC	100	100

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HYFLUX LTD AND ITS
SUBSIDIARIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009**

The information in this Appendix III has been reproduced from the annual report of Hyflux Ltd and its subsidiaries for the financial year ended 31 December 2009 and has not been specifically prepared for inclusion in this Information Memorandum.

Independent Auditors' Report

Members of the Company
Hyflux Ltd

Hyflux Ltd
Annual Report 2009

We have audited the accompanying financial statements of Hyflux Ltd (the Company) and its subsidiaries (the Group), which comprise the balance sheets of the Group and the Company as at 31 December 2009, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 55 to 130.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards. This responsibility includes:

- (a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;
- (b) selecting and applying appropriate accounting policies; and
- (c) making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report (cont'd)

Members of the Company
Hyflux Ltd

Opinion

In our opinion:

- (a) the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2009 and the results, changes in equity and cash flows of the Group for the year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

KPMG LLP

*Public Accountants and
Certified Public Accountants*

Singapore

12 March 2010

Balance Sheets

As at 31 December 2009

Hyflux Ltd
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	Note	Group		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Non-current assets					
Property, plant and equipment	4	134,926	56,857	–	8
Intangible assets	5	89,615	66,523	1,810	1,826
Investment property	6	2,116	2,244	–	–
Investments in subsidiaries	7	–	–	130,920	131,073
Investments in joint ventures	8	–	–	3,125	2,375
Investments in associates	9	102,654	94,716	12,955	12,608
Other investments	10	99	908	–	899
Financial and lease receivables	11	155,947	194,204	–	–
Trade and other receivables	12	35,312	44,137	18,296	19,832
Deferred tax assets	13	2,761	2,799	–	–
Total non-current assets		523,430	462,388	167,106	168,621
Current assets					
Gross amounts due for contract work	14	119,994	93,987	–	–
Inventories	15	32,497	33,827	–	–
Financial and lease receivables	11	7,818	3,248	–	–
Trade and other receivables	12	222,089	151,531	524,628	362,077
Cash and cash equivalents	16	166,735	90,740	62,860	18,242
Assets classified as held for sale	17	–	10,834	–	–
Total current assets		549,133	384,167	587,488	380,319
Current liabilities					
Trade and other payables	18	265,772	268,234	244,742	118,882
Loans and borrowings	19	45,305	50,344	44,137	49,524
Tax payable		6,794	5,925	–	–
Liabilities classified as held for sale	17	–	1	–	–
Total current liabilities		317,871	324,504	288,879	168,406
Net current assets		231,262	59,663	298,609	211,913
Non-current liabilities					
Loans and borrowings	19	355,018	207,892	297,233	206,170
Deferred tax liabilities	13	6,272	6,260	–	159
Total non-current liabilities		361,290	214,152	297,233	206,329
Net assets		393,402	307,899	168,482	174,205
Equity					
Share capital		105,114	99,118	105,114	99,118
Reserve for own shares		(1,292)	–	(1,292)	–
Capital reserve		8,627	7,204	–	–
Foreign currency translation reserve		4,543	9,257	–	–
Hedging reserve		(6,716)	(13,496)	–	–
Employees' share option reserve		16,780	12,971	16,780	12,971
Retained earnings		238,188	182,493	47,880	62,116
Total equity attributable to equity holders of the Company		365,244	297,547	168,482	174,205
Minority interests		28,158	10,352	–	–
Total equity	20	393,402	307,899	168,482	174,205

The accompanying notes form an integral part of these financial statements.

Consolidated Income Statement

Year ended 31 December 2009

	Note	2009	2008
		\$'000	\$'000
Revenue	23	524,814	554,224
Other income		6,707	5,264
Changes in inventories of finished goods and work-in-progress		1,332	3,710
Raw materials and consumables used and subcontractors' cost		(309,371)	(387,767)
Staff costs		(59,428)	(52,606)
Depreciation, amortisation and impairment		(16,521)	(9,718)
Other expenses		(57,936)	(31,110)
Finance costs	24	(9,259)	(10,222)
Share of profit/(loss) of associates, net of income tax		2,634	(1,400)
Profit before income tax	25	82,972	70,375
Income tax expense	26	(8,681)	(8,157)
Profit for the year		<u>74,291</u>	<u>62,218</u>
Profit attributable to:			
Owners of the Company		75,036	59,036
Minority interests		(745)	3,182
Profit for the year		<u>74,291</u>	<u>62,218</u>
Earnings per share (cents)			
Basic earnings per share	27	14.26	11.25
Diluted earnings per share	27	<u>14.01</u>	<u>10.99</u>

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

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	2009	2008
	\$'000	\$'000
Profit for the year	74,291	62,218
Other comprehensive income		
Foreign currency translation differences for foreign operations	(5,117)	11,556
Share of net fair value gain/(loss) on derivative financial instruments of associates	644	(406)
Net change in fair value of cash flow hedges transferred to profit or loss	6,069	1,017
Effective portion of changes in fair value of cash flow hedges	67	(9,885)
Share of statutory reserve of associates	102	–
Other comprehensive income for the year, net of income tax	<u>1,765</u>	<u>2,282</u>
Total comprehensive income for the year	<u>76,056</u>	<u>64,500</u>
Attributable to:		
Owners of the Company	77,204	60,834
Minority interests	(1,148)	3,666
Total comprehensive income for the year	<u>76,056</u>	<u>64,500</u>

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

	Share capital \$'000	Reserve for own shares \$'000	Capital reserve \$'000	Foreign currency translation reserve \$'000	Hedging reserve \$'000	Employees' share option reserve \$'000	Retained earnings \$'000	Total equity attributable to equity holders of the Company \$'000	Minority interests \$'000	Total equity \$'000
Group										
At 1 January 2009	99,118	-	7,204	9,257	(13,496)	12,971	182,493	297,547	10,352	307,899
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	75,036	75,036	(745)	74,291
Other comprehensive income										
Foreign currency translation differences for foreign operations	-	-	-	(4,714)	-	-	-	(4,714)	(403)	(5,117)
Share of net fair value gain on derivative financial instruments of associates	-	-	-	-	644	-	-	644	-	644
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	67	-	-	67	-	67
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	-	6,069	-	-	6,069	-	6,069
Share of statutory reserve of associates	-	-	102	-	-	-	-	102	-	102
Total comprehensive income for the year	-	-	102	(4,714)	6,780	-	75,036	77,204	(1,148)	76,056
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Issue of shares for cash under Employees' Share Option Scheme	5,996	-	-	-	-	-	-	5,996	-	5,996
Own shares acquired	-	(1,292)	-	-	-	-	-	(1,292)	-	(1,292)
Value of employee services received for issue of share options	-	-	-	-	-	3,809	-	3,809	-	3,809
Transfer to capital reserve	-	-	1,321	-	-	-	(1,321)	-	-	-
Dividends to equity holders	-	-	-	-	-	-	(18,020)	(18,020)	-	(18,020)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	18,954	18,954
Total transactions with owners	5,996	(1,292)	1,321	-	-	3,809	(19,341)	(9,507)	18,954	9,447
At 31 December 2009	105,114	(1,292)	8,627	4,543	(6,716)	16,780	238,188	365,244	28,158	393,402

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity (cont'd)

Year ended 31 December 2009

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Group	Share capital \$'000	Reserve for own shares \$'000	Capital reserve \$'000	Foreign currency translation reserve \$'000	Hedging reserve \$'000	Employees' share option reserve \$'000	Retained earnings \$'000	Total equity attributable to equity holders of the Company \$'000	Minority interests \$'000	Total equity \$'000
At 1 January 2008	95,820	-	1,064	(1,815)	(4,222)	9,419	139,506	239,772	7,295	247,067
Total comprehensive income for the year	-	-	-	-	-	-	59,036	59,036	3,182	62,218
Profit for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	11,072	(406)	-	-	11,072	484	11,556
Foreign currency translation differences for foreign operations	-	-	-	11,072	-	-	-	-	-	-
Share of net fair value loss on derivative financial instruments of associates	-	-	-	-	(406)	-	-	(406)	-	(406)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	(9,885)	-	-	(9,885)	-	(9,885)
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	-	1,017	-	-	1,017	-	1,017
Total comprehensive income for the year	-	-	-	11,072	(9,274)	-	59,036	60,834	3,666	64,500
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Issue of shares for cash under Employees' Share Option Scheme	3,298	-	-	-	-	-	-	3,298	-	3,298
Value of employee services received for issue of share options	-	-	-	-	-	3,552	-	3,552	-	3,552
Transfer to capital reserve	-	-	6,140	-	-	-	(6,140)	-	-	-
Dividends to equity holders	-	-	-	-	-	-	(9,909)	(9,909)	-	(9,909)
Dividends to minority shareholders	-	-	-	-	-	-	-	-	(609)	(609)
Total transactions with owners	3,298	-	6,140	-	-	3,552	(16,049)	(3,059)	(609)	(3,668)
At 31 December 2008	99,118	-	7,204	9,257	(13,496)	12,971	182,493	297,547	10,352	307,899

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2009

	Note	2009 \$'000	2008 \$'000
Cash flows from operating activities			
Profit before income tax		82,972	70,375
Adjustments for:			
Employees' share option expense		3,809	3,552
Fair value loss on derivative financial instruments		479	680
Gain on sale of other investments		(44)	–
Loss on sale of property, plant and equipment		1,392	42
Share of (profit)/loss of associates, net of income tax		(2,634)	1,400
Depreciation, amortisation and impairment		16,521	9,718
Finance costs		9,259	10,222
Interest income		(3,258)	(4,770)
Impairment of trade and other receivables		1,845	3,088
Impairment of investments		2,058	–
Allowance for inventory obsolescence		863	366
		<u>113,262</u>	<u>94,673</u>
Change in inventories		2,319	(13,543)
Change in gross amounts due for contract work		(26,007)	(730)
Change in trade and other receivables		(67,176)	(31,712)
Change in financial and lease receivables		40,665	(169,044)
Change in trade and other payables		5,316	151,489
Cash generated from operating activities		<u>68,379</u>	<u>31,133</u>
Income tax paid		(7,773)	(1,276)
Net cash from operating activities		<u>60,606</u>	<u>29,857</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(8,594)	(18,792)
Acquisition of intangible assets		(29,669)	(30,006)
Acquisition of subsidiaries, net of cash acquired	29	(19,965)	–
Acquisition of associates		(27,626)	(5,869)
Proceeds from sale of property, plant and equipment		364	791
Proceeds from sale of other investments		853	–
Dividends received from associates		1,260	2,451
Change in amounts due from related parties (non-trade)		(12,393)	(45,199)
Interest received		2,912	4,770
Net cash used in investing activities		<u>(92,858)</u>	<u>(91,854)</u>

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement (cont'd)

Year ended 31 December 2009

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	Note	2009	2008
		\$'000	\$'000
Cash flows from financing activities			
Proceeds from exercise of share options		5,996	3,298
Purchase of treasury shares		(1,292)	–
Proceeds from borrowings		425,698	100,510
Repayment of borrowings		(291,003)	(49,825)
Payment of finance lease liabilities		(99)	(119)
Interest paid		(8,689)	(12,100)
Dividends paid to equity holders of the Company		(18,020)	(9,909)
Dividends paid to minority interests of subsidiaries		–	(609)
Net cash from financing activities		<u>112,591</u>	<u>31,246</u>
Net increase/(decrease) in cash and cash equivalents			
		80,339	(30,751)
Cash and cash equivalents at 1 January		91,480	121,047
Effect of exchange rate fluctuations on cash held		(5,084)	1,184
Cash and cash equivalents at 31 December	16	<u>166,735</u>	<u>91,480</u>

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

Year ended 31 December 2009

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 12 March 2010.

1 DOMICILE AND ACTIVITIES

Hyflux Ltd (the Company) is incorporated in the Republic of Singapore. The address of the Company's registered office is Hyflux Building, 202 Kallang Bahru, Singapore 339339.

The consolidated financial statements relate to the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in associates and jointly controlled entities.

The principal activities of the Company are those relating to investment holding.

The principal activities of the subsidiaries comprise the following:

Water

- Seawater desalination, raw water purification, wastewater cleaning, water recycling, water reclamation and ultra pure water production for municipal and industrial clients as well as home consumer filtration and purification products; and
- Design, building and sale of water treatment plants, seawater desalination plants, wastewater treatment plants and water recycling plants under service concession arrangements.

Renewable Resources Management

- Development of membrane applications in resource recovery, waste recycling and energy reclamation, including applications such as used oil recovery and recycling;
- Development and commercialisation of specialty materials, such as L-lactic acid from natural renewable resources; and
- Separation, concentration and purification treatments for manufacturing process streams.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

2 BASIS OF PREPARATION (cont'd)

2.3 Functional and presentation currency

These financial statements are presented in Singapore dollars, which is the Company's functional currency. Other significant entities within the Group have Chinese Renminbi and Algerian Dinar as their functional currency. All financial information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 5 on capitalisation of development costs.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 4 – residual values and useful lives of property, plant and equipment;
- Note 5 – useful lives and recoverability of development projects; and
- Note 22 – recoverability of trade and other receivables.

2.5 Changes in accounting policies

Overview

On the adoption of new and revised FRSs as of 1 January 2009, the Group changed its accounting policies in the following areas:

- Determination and presentation of operating segments
- Presentation of financial statements
- Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

2 BASIS OF PREPARATION (cont'd)

2.5 Changes in accounting policies (cont'd)

Determination and presentation of operating segments

As of 1 January 2009, the Group determines and presents operating segments based on the information that is provided internally to the Group Chief Executive Officer (CEO), who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of FRS 108 *Operating Segments*. Previously operating segments were determined and presented in accordance with FRS 14 *Segment Reporting*.

Comparative segment information has been re-presented in conformity with the transitional requirements of the standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Group CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

Presentation of financial statements

The Group applies revised FRS 1 *Presentation of Financial Statements (2008)*, which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments

The Group applies the amendments to FRS 107 *Financial Instruments: Disclosures*, which became effective as of 1 January 2009. As a result, the Group discloses how the fair value of its financial instruments is measured using the "three-level hierarchy" and provide additional disclosures about the relative reliability of the fair value measurements.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, except as explained in note 2.5, which addresses changes in accounting policies.

3.1 Basis of consolidation

Business combinations

Business combinations are accounted for under the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Joint ventures are accounted for using proportionate consolidation. The financial statements of joint ventures are proportionately consolidated from the date that joint control commences until the date that joint control ceases. The accounting policies of joint ventures have been changed where necessary to align them with the policies adopted by the Group.

Associates

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of voting power of another entity.

Associates are accounted for using the equity method and are recognised initially at cost. The Group's investments include goodwill identified on acquisition, net of accumulated impairment losses. The financial statements include the Group's share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Basis of consolidation (cont'd)

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are eliminated in the same way as unrealised gains except that losses are recognised immediately when they represent a reduction in the net realisable value of assets or an impairment loss. Balances with joint ventures are eliminated to the extent of the Group's interest in the joint ventures.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Accounting for subsidiaries, joint ventures and associates by the Company

Investments in subsidiaries, joint ventures and associates are stated in the Company's balance sheet at cost less accumulated impairment losses.

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Foreign currency (cont'd)

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Singapore dollars at exchange rates at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the closing rate. For acquisitions prior to 1 January 2005, the exchange rates at the date of acquisition were used.

Foreign currency differences are recognised in other comprehensive income. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign exchange translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item which is considered to form part of a net investment in a foreign operation are recognised in other comprehensive income, and are presented as equity in the foreign currency translation reserve.

3.3 Financial instruments

Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Financial instruments (cont'd)

Non-derivative financial assets (cont'd)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables, including service concession receivables.

Cash and cash equivalents comprise cash balances and bank deposits.

The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition, the financial assets are measured at amortised cost.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, each component of the consideration received or receivable is accounted for separately and is recognised initially at the fair value of the consideration received or receivable (see also note 3.5).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities are classified as available-for-sale financial assets.

Where an investment in equity securities classified as available-for-sale does not have a quoted market price in an active market and other methods of determining fair value do not result in a reasonable estimate, the investment is measured at cost less impairment losses.

Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Financial instruments (cont'd)

Non-derivative financial liabilities (cont'd)

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Intra-group financial guarantees

Financial guarantees are financial instruments issued by the Group that requires the issuer to make specified payments to reimburse the holder for the loss incurred because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are recognised initially at fair value and are classified as financial liabilities. Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised if they were accounted for as contingent liabilities. When financial guarantees are terminated before their original expiry date, the carrying amount of the financial guarantees is transferred to the income statement.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Financial instruments (cont'd)

Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% - 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the income statement as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, or exercised, or if the designation is revoked, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, the balance in other comprehensive income is recognised immediately in profit or loss. In other cases, the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Financial instruments (cont'd)

Derivative financial instruments, including hedge accounting (cont'd)

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

3.4 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other expenses in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Property, plant and equipment (cont'd)

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Construction-in-progress is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Plant and machinery	- 4 to 10 years
Motor vehicles	- 4 to 5 years
Computers	- 1 to 5 years
Office equipment	- 4 to 5 years
Leasehold properties and improvements	- 4 to 5 years or over the lease period
Furniture and fittings	- 4 to 5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.5 Intangible assets

Goodwill

Acquisitions prior to 1 January 2001

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquiree.

Goodwill and negative goodwill on acquisitions were written off against retained profits in the year of acquisition.

Goodwill and negative goodwill that have previously been taken to reserves are not taken to the income statement when (a) the business is disposed of or (b) the goodwill is impaired.

Acquisitions occurring between 1 January 2001 and 1 January 2005

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquiree.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Intangible assets (cont'd)

Goodwill (cont'd)

Acquisitions occurring between 1 January 2001 and 1 January 2005 (cont'd)

Goodwill arising on the acquisition of subsidiaries and joint ventures is presented in intangible assets. Goodwill arising on the acquisition of associates is presented together with investments in associates.

Goodwill was stated at cost from the date of initial recognition and amortised over its estimated useful life of not more than 20 years. On 1 January 2005, the Group discontinued amortisation of this goodwill. This remaining goodwill balance is subject to testing for impairment.

Negative goodwill was derecognised by crediting retained profits on 1 January 2005.

Acquisitions on or after 1 January 2005

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill arising on the acquisition of subsidiaries and joint ventures is presented in intangible assets. Goodwill arising on the acquisition of associates is presented together with investments in associates.

Goodwill is measured at cost less accumulated impairment losses, and tested for impairment. Negative goodwill is recognised immediately in the income statement.

Acquisitions of minority interest

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Intangible assets (cont'd)

Research and development (cont'd)

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Service concession arrangements

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition. Subsequent to initial recognition the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and accumulated impairment losses.

Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Intellectual property rights	- 10 years
Capitalised development costs	- 10 to 15 years
Licensing fees	- 10 to 20 years
Service concession arrangements	- 10 to 25 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.6 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, or use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured at cost less accumulated depreciation and impairment losses.

Depreciation on investment properties is recognised in the income statement on a straight-line basis over the lease term of 26 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end, and adjusted if appropriate.

3.7 Leased assets

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's balance sheet.

3.8 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Gross amounts due for contract work

Gross amounts due for contract work represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Gross amounts due for contract work are presented as part of assets in the balance sheet. If payments received from customers exceed the income recognised, the difference is presented as part of liabilities in the balance sheet.

3.10 Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, and indications that a debtor will enter bankruptcy.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then assessed collectively for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**3.10 Impairment (cont'd)*****Financial assets (including receivables) (cont'd)***

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to time value are reflected as a component of interest income.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Impairment (cont'd)

Non-financial assets (cont'd)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

3.11 Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale, and subsequent gains or losses on remeasurement, are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3.12 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Employee benefits (cont'd)

Short-term employee benefits (cont'd)

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

3.13 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.14 Revenue

Construction revenue - Construction contracts and sale of plants under service concession arrangements

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss. Net revenue from the sale of plants previously not recognised as construction revenue under the service concession arrangements is recognised when significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, and the amount of revenue can be measured reliably.

Revenue relating to construction or upgrade services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts (see above). Operation or service revenue is recognised in the period in which the services are provided by the Group. When the Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered.

Operating and maintenance income

Revenue from the provision of operating and maintenance services is recognised when the services are rendered.

Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognised as a reduction of revenue as the sales are recognised.

Transfers of risks and rewards occur upon delivery to customers.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.14 Revenue (cont'd)

Finance income

Finance income represents the interest income on the financial receivable arising from a service concession arrangement, and is recognised in the income statement using the effective interest method.

Finance lease income

Finance lease income is recognised on the accrual basis, taking into account the effective yield of the asset.

Others

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

3.15 Government grants

The government grants are deducted against the carrying amounts of the assets when there is reasonable assurance that government grants will be received to compensate the Group for the cost of an asset and the Group will comply with the conditions associated with the grant.

Jobs Credit Scheme

Cash grants received from the Singapore government in relation to the Jobs Credit Scheme are recognised as income upon receipt.

3.16 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.17 Finance costs

Finance costs comprise interest expense on borrowings that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

3.18 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.19 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for the Company's holding of its own shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, less the Company's own shares held, and adjusted for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

3.20 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3.21 New standards and interpretations not yet adopted

New standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2009 have not been applied in preparing these financial statements. None of these are expected to be relevant to the financial statements of the Group, except for *Eligible Hedged Items - Amendment to FRS 39 Financial Instruments: Recognition and Measurement*, which clarifies the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment, which becomes mandatory for the Group's 2010 consolidated financial statements, is not expected to have a significant impact on the consolidated financial statements.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

4 PROPERTY, PLANT AND EQUIPMENT

Group	Note	Plant and machinery \$'000	Motor vehicles \$'000	Computers \$'000	Office equipment \$'000	Leasehold properties and improvements \$'000	Furniture and fittings \$'000	Construction-in-progress \$'000	Total \$'000
Cost									
At 1 January 2008		18,391	3,051	5,712	1,794	22,408	1,013	26,865	79,234
Additions		2,573	524	1,765	377	1,956	429	11,168	18,792
Transfers		1,278	—	—	—	2,303	—	(3,581)	—
Transfer to lease prepayments		—	—	—	—	(2,747)	—	—	(2,747)
Transfer to financial receivables		—	—	—	—	—	—	(16,234)	(16,234)
Disposals		(1,610)	(527)	(283)	(42)	—	(14)	—	(2,476)
Effect of movements in exchange rates		308	90	229	25	859	7	274	1,792
At 31 December 2008 and 1 January 2009		20,940	3,138	7,423	2,154	24,779	1,435	18,492	78,361
Acquisitions through business combinations	29	11,782	157	28	23	13,363	29	56,560	81,942
Additions		864	117	2,339	124	892	278	3,980	8,594
Transfers		8,296	—	1,160	12	8,512	—	(17,980)	—
Disposals		(2,039)	(252)	(262)	(32)	(84)	(16)	—	(2,685)
Effect of movements in exchange rates		(1,026)	(31)	(58)	(6)	(685)	(11)	(1,188)	(3,005)
At 31 December 2009		38,817	3,129	10,630	2,275	46,777	1,715	59,864	163,207
Accumulated depreciation									
At 1 January 2008		7,514	1,771	3,154	1,056	2,846	320	—	16,661
Depreciation for the year		2,730	472	1,260	222	1,506	134	—	6,324
Transfer to lease prepayments		—	—	—	—	(185)	—	—	(185)
Disposals		(930)	(481)	(186)	(35)	—	(11)	—	(1,643)
Effect of movements in exchange rates		83	43	158	15	46	2	—	347
At 31 December 2008 and 1 January 2009		9,397	1,805	4,386	1,258	4,213	445	—	21,504
Depreciation for the year		3,229	454	1,444	268	2,005	416	—	7,816
Disposals		(381)	(224)	(237)	(17)	(54)	(16)	—	(929)
Effect of movements in exchange rates		25	(6)	(27)	1	(105)	2	—	(110)
At 31 December 2009		12,270	2,029	5,566	1,510	6,059	847	—	28,281
Carrying amounts									
At 1 January 2008		10,877	1,280	2,558	738	19,562	693	26,865	62,573
At 31 December 2008 and 1 January 2009		11,543	1,333	3,037	896	20,566	990	18,492	56,857
At 31 December 2009		26,547	1,100	5,064	765	40,718	868	59,864	134,926

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

4 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Company	Plant and machinery \$'000	Computers \$'000	Office equipment \$'000	Leasehold improvements \$'000	Furniture and fittings \$'000	Construction-in-progress \$'000	Total \$'000
Cost							
At 1 January 2008	9,414	1,055	97	744	26	88	11,424
Disposals	(9,414)	(37)	(97)	(744)	(15)	(88)	(10,395)
At 31 December 2008, 1 January 2009 and 31 December 2009	-	1,018	-	-	11	-	1,029
Accumulated depreciation							
At 1 January 2008	2,820	954	21	14	3	-	3,812
Depreciation for the year	-	80	-	-	1	-	81
Disposals	(2,820)	(16)	(21)	(14)	(1)	-	(2,872)
At 31 December 2008 and 1 January 2009	-	1,018	-	-	3	-	1,021
Depreciation for the year	-	-	-	-	8	-	8
At 31 December 2009	-	1,018	-	-	11	-	1,029
Carrying amounts							
At 1 January 2008	6,594	101	76	730	23	88	7,612
At 31 December 2008 and 1 January 2009	-	-	-	-	8	-	8
At 31 December 2009	-	-	-	-	-	-	-

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

4 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Leased assets

The Group leases motor vehicles under a number of finance lease agreements. The leased motor vehicles are the security for the lease obligations (see note 19). At 31 December 2009, the net carrying amount of such leased motor vehicles was \$107,000 (2008: \$247,000).

Property, plant and equipment under construction

Capitalised borrowing costs relating to construction-in-progress amounted to \$382,000 for the year ended 31 December 2008, with a capitalisation rate ranging from 3.38% to 6.16% per annum.

Estimation of residual values and useful lives of property, plant and equipment

The Group reviews the useful lives of the property, plant and equipment at each balance sheet date in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The net book value of the Group's property, plant and equipment at 31 December 2009 was \$134,926,000 (2008: \$56,857,000) and the annual depreciation charge for the year ended 31 December 2009 was \$7,816,000 (2008: \$6,324,000).

Year ended 31 December 2009

5 INTANGIBLE ASSETS

Group	Note	Goodwill \$'000	Intellectual property rights \$'000	Development costs \$'000	Licensing fees \$'000	Service concession arrangements \$'000	Total \$'000
Cost							
At 1 January 2008		4,288	4,792	31,765	5,472	–	46,317
Additions		–	–	–	104	–	104
Additions – internally developed		–	–	9,404	–	–	9,404
Acquisition of minority interest		518	–	–	–	–	518
Service concession		–	–	–	–	19,980	19,980
Effect of movements in exchange rates		–	(77)	68	(9)	(654)	(672)
At 31 December 2008 and 1 January 2009		4,806	4,715	41,237	5,567	19,326	75,651
Additions		–	42	–	–	–	42
Additions – internally developed		–	–	9,269	–	–	9,269
Acquisition of minority interest	29	1,715	–	–	–	–	1,715
Acquisitions through business combinations	29	7,667	–	13	3,277	–	10,957
Transfer to financial receivables		–	–	–	–	(2,617)	(2,617)
Service concession		–	–	–	–	12,313	12,313
Effect of movements in exchange rates		–	(2)	(28)	(128)	(443)	(601)
At 31 December 2009		14,188	4,755	50,491	8,716	28,579	106,729
Accumulated amortisation and impairment losses							
At 1 January 2008		–	690	4,438	690	–	5,818
Amortisation for the year		–	67	1,319	312	269	1,967
Impairment loss		–	–	1,298	–	–	1,298
Effect of movements in exchange rates		–	7	47	(2)	(7)	45
At 31 December 2008 and 1 January 2009		–	764	7,102	1,000	262	9,128
Amortisation for the year		–	68	1,870	410	450	2,798
Impairment loss		1,525	61	2,288	1,459	–	5,333
Effect of movements in exchange rates		–	(3)	(29)	(109)	(4)	(145)
At 31 December 2009		1,525	890	11,231	2,760	708	17,114
Carrying amounts							
At 1 January 2008		4,288	4,102	27,327	4,782	–	40,499
At 31 December 2008 and 1 January 2009		4,806	3,951	34,135	4,567	19,064	66,523
At 31 December 2009		12,663	3,865	39,260	5,956	27,871	89,615

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

5 INTANGIBLE ASSETS (cont'd)

Company	Intellectual property rights \$'000	Development costs \$'000	Licensing fees \$'000	Total \$'000
Cost				
At 1 January 2008	1,779	267	2,367	4,413
Additions	2	–	–	2
Disposals	(17)	(267)	(2,230)	(2,514)
At 31 December 2008 and 1 January 2009	1,764	–	137	1,901
Additions	15	–	–	15
At 31 December 2009	1,779	–	137	1,916
Accumulated amortisation				
At 1 January 2008	47	82	102	231
Amortisation for the year	16	9	14	39
Disposals	(2)	(91)	(102)	(195)
At 31 December 2008 and 1 January 2009	61	–	14	75
Amortisation for the year	18	–	13	31
At 31 December 2009	79	–	27	106
Carrying amounts				
At 1 January 2008	1,732	185	2,265	4,182
At 31 December 2008 and 1 January 2009	1,703	–	123	1,826
At 31 December 2009	1,700	–	110	1,810

Capitalisation of development costs

Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model.

Recoverability of development costs

The recoverable amounts of the cash-generating units are estimated based on their value in use. When value in use calculations are undertaken, management estimates the expected future cash flows from the cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows. The recoverable amounts were estimated to be higher than the carrying amounts of the units, and no impairment was required, except for the amounts discussed below.

5 INTANGIBLE ASSETS (cont'd)***Impairment loss on development costs***

In 2009, due to changes in the customer's business plan, an impairment loss of \$2,288,000 (2008: \$1,298,000) to this project was recognised in the income statement although the project was well into testing phase.

Estimation of useful lives of development costs

Significant judgement is required in estimating the useful lives of development projects, which are affected by various factors, such as technological developments.

Impairment testing for cash-generating units (CGUs) containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in note 28. The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	2009	2008
	\$'000	\$'000
Singapore		
- Industrial	–	1,525
- Others	192	192
The Netherlands		
- Industrial	4,804	3,089
Kingdom of Saudi Arabia		
- Industrial	5,802	–
People's Republic of China		
- Industrial	1,865	–
	<u>12,663</u>	<u>4,806</u>

In 2009, following a management review of the business portfolio, a business venture was subsequently terminated. Accordingly, an impairment loss of \$1,525,000 (2008: Nil) on the goodwill from the Singapore Industrial CGU is recognised in the income statement.

The recoverable amounts of the CGUs were based on their values in use.

Values in use were determined by discounting the future cash flows generated from the continuing use of the units. Unless indicated otherwise, values in use in 2009 were determined similarly as in 2008. The calculations of the values in use were based on the following key assumptions:

- Cash flows were projected based on financial budgets approved by management covering a five-year period.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

5 INTANGIBLE ASSETS (cont'd)

Impairment testing for cash-generating units (CGUs) containing goodwill (cont'd)

- The anticipated annual revenue growth included in the cash flow projections was 2% to 5% (2008: 2% to 5%) for the years 2010 to 2014 (2008: 2009 to 2013).
- A pre-tax discount rate of 10% (2008: 12%) was applied in determining the recoverable amounts of the CGUs and reflect specific risks relating to the relevant segments.

The values assigned to the key assumptions represent management's assessment of future trends in the industries and are based on both external sources and internal sources (historical data).

6 INVESTMENT PROPERTY

	Group	
	2009	2008
	\$'000	\$'000
Cost		
At 1 January and 31 December	3,348	3,348
Accumulated depreciation		
At 1 January	1,104	975
Depreciation for the year	128	129
At 31 December	1,232	1,104
Carrying amounts		
At 1 January	2,244	2,373
At 31 December	2,116	2,244

The fair value of the investment property, estimated by the directors of the Group, as at 31 December 2009 is approximately \$2,324,000 (2008: \$2,794,000).

The investment property is a warehouse, leased to an external tenant. The lease contains an initial non-cancellable period of one year. Subsequent renewals are negotiated with the lessee. No contingent rents are charged.

7 INVESTMENTS IN SUBSIDIARIES

	Company	
	2009	2008
	\$'000	\$'000
Unquoted equity securities, at cost	109,649	109,802
Impairment losses	(3,238)	(3,238)
	106,411	106,564
Loans to subsidiaries	24,509	24,509
	130,920	131,073

The loans to subsidiaries are unsecured and interest-free, and settlement is neither planned nor likely to occur in the foreseeable future. As these balances are, in substance, part of the Company's net investments in the subsidiaries, they are stated at cost less impairment losses, if any.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

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7 INVESTMENTS IN SUBSIDIARIES (cont'd)

Details of major subsidiaries are as follows:

Name of subsidiary	Note	Country of incorporation	Ownership interest	
			2009 %	2008 %
Held by the Company				
Hydrochem (S) Pte Ltd		Singapore	100	100
Hyflux Consumer Products Pte. Ltd.		Singapore	100	100
Hyflux Membrane Manufacturing (S) Pte.Ltd.		Singapore	100	100
Hyflux International Ltd		British Virgin Islands	100	100
SinoSpring Utility Ltd		British Virgin Islands	100	100
Spring China Utility Ltd		British Virgin Islands	100	100
Held through subsidiaries				
Hydrochem Engineering (Shanghai) Co., Ltd		People's Republic of China	100	100
Hyflux CEPAration B.V.		The Netherlands	100	70
Hyflux Filtech (Shanghai) Co., Ltd		People's Republic of China	71	71
Hyflux Hi-Tech Product (Yangzhou) Co., Ltd		People's Republic of China	100	100
Hyflux NewSpring Construction Engineering (Shanghai) Co., Ltd		People's Republic of China	100	100
Hyflux NewSpring (Funing) Co., Ltd		People's Republic of China	100	100
Hyflux Unitech (Shanghai) Co., Ltd		People's Republic of China	71	71
Lube Oil Re-finishing Co., LLC	9, 29	Kingdom of Saudi Arabia	83	–
Sinolac (Singapore) Pte. Ltd.	9, 29	Singapore	51	–
Tianjin Dagang NewSpring Desalination Co., Ltd	8	People's Republic of China	–	100
Hyflux Engineering (Shanghai) Co., Ltd		People's Republic of China	100	100
Eflux (Taizhou) Co., Ltd		People's Republic of China	100	100

KPMG LLP, Singapore is the auditor of all significant Singapore-incorporated subsidiaries. The foreign-incorporated subsidiaries that are considered significant are Hyflux NewSpring Construction Engineering (Shanghai) Co., Ltd, Lube Oil Re-finishing Co., LLC and Sinolac (Singapore) Pte. Ltd. are audited by Shanghai HDDY Certified Public Accountants Co., Ltd, People's Republic of China, Aldar Audit Bureau Abdullah Al Basri & Co, Kingdom of Saudi Arabia and Goh Ngiap Suan & Co Certified Public Accountants, Singapore respectively.

8 INVESTMENTS IN JOINT VENTURES

	Company	
	2009 \$'000	2008 \$'000
Unquoted equity securities, at cost	3,125	2,375

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

8 INVESTMENTS IN JOINT VENTURES (cont'd)

Details of the joint ventures are as follows:

Name of joint venture	Note	Country of incorporation	Ownership interest	
			2009 %	2008 %
Held by the Company				
Hyflux Marmon Development Pte. Ltd.		Singapore	50	50
Held through subsidiary				
H.J. NewSpring Limited		Hong Kong	50	–
Held through joint venture				
Tianjin Dagang NewSpring Desalination Co., Ltd	7	People's Republic of China	50	–

KPMG LLP, Singapore is the auditor of the Singapore-incorporated joint venture which is not considered significant. The foreign-incorporated joint venture that is considered significant is Tianjin Dagang NewSpring Desalination Co., Ltd and is audited by Shanghai HDDY Certified Public Accountants Co., Ltd, People's Republic of China.

The summarised financial information of the joint ventures, which are adjusted for the percentage of ownership held by the Group, are as follows:

	2009 \$'000	2008 \$'000
Assets and liabilities		
Non-current assets	128,383	1,387
Current assets	23,049	318
Total assets	<u>151,432</u>	<u>1,705</u>
Non-current liabilities	(54,662)	–
Current liabilities	(28,504)	(104)
Total liabilities	<u>(83,166)</u>	<u>(104)</u>
Results		
Revenue	260	97
Expenses	(838)	(501)
Loss before income tax	<u>(578)</u>	<u>(404)</u>
Contingent liabilities in respect of bank guarantees for which the Group is liable	<u>(54,662)</u>	<u>–</u>

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9 INVESTMENTS IN ASSOCIATES

	Group		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Quoted equity securities	55,386	58,680	–	–
Unquoted equity securities	47,268	36,036	12,955	12,608
	<u>102,654</u>	<u>94,716</u>	<u>12,955</u>	<u>12,608</u>
Fair value of investment in an associate for which there is a published price quotation	66,105	33,075	–	–

Investments in associates at 31 December 2008 include goodwill of \$2,400,000.

Unquoted equity securities of the Group with a carrying amount of \$36,575,000 (2008: \$7,759,000) have been pledged as collateral for banking facilities granted to associates.

Details of major associates are as follows:

Name of associate	Note	Country of incorporation	Ownership interest	
			2009	2008
			%	%
Held by the Company				
SingSpring Trust		Singapore	30.0	30.0
Held through subsidiaries				
Hyflux Water Trust		Singapore	31.7	31.5
Lube Oil Re-refining Co., LLC	7, 29	Kingdom of Saudi Arabia	–	41.5
Ningxia Hypow Bio-Technology Co., Ltd		People's Republic of China	25.0	25.0
Sinolac (Singapore) Pte. Ltd.	7, 29	Singapore	–	27.5
Tlemcen Desalination Investment Company		France	30.0	30.0
Tahlyat Myah Magtaa SpA		Algeria	47.0	51.0 [^]

[^] Although the Group held 51% of the shareholding of Tahlyat Myah Magtaa SpA as at 31 December 2008, the investment was considered an associate as the Group had no control over it. The Group, however, exercised significant influence.

KPMG LLP, Singapore is the auditor of all significant Singapore-incorporated associates. The foreign-incorporated associates are not considered significant. For this purpose, an associated company is considered significant as defined under the Singapore Exchange Limited Listing Manual if the Group's share of its net tangible assets represents 20% or more of the Group's consolidated net tangible assets, or if the Group's share of its pre-tax profits accounts for 20% or more of the Group's consolidated pre-tax profits.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

9 INVESTMENTS IN ASSOCIATES (cont'd)

The summarised financial information of the associates, which are adjusted for the percentage of ownership held by the Group, are as follows:

	2009	2008
	\$'000	\$'000
Assets and liabilities		
Total assets	296,047	249,336
Total liabilities	(168,604)	(127,405)
Results		
Revenue	29,873	12,113
Profit/(Loss) after income tax	2,634	(1,400)

10 OTHER INVESTMENTS

	Group		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Available-for-sale unquoted equity securities, at cost	99	908	–	899

11 FINANCIAL AND LEASE RECEIVABLES

	Group	
	2009	2008
	\$'000	\$'000
Non-current		
Financial receivables	155,630	193,618
Lease receivables	317	586
	155,947	194,204
Current		
Financial receivables	7,549	2,964
Lease receivables	269	284
	7,818	3,248
Total	163,765	197,452

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11 FINANCIAL AND LEASE RECEIVABLES (cont'd)

The Group has receivables under finance leases as follows:

	Minimum lease payment receivables 2009 \$'000	Unearned finance income 2009 \$'000	Present value of minimum lease payment receivables 2009 \$'000	Minimum lease payment receivables 2008 \$'000	Unearned finance income 2008 \$'000	Present value of minimum lease payment receivables 2008 \$'000
Group						
Within one year	329	60	269	329	45	284
Between one and five years	410	93	317	739	153	586
	<u>739</u>	<u>153</u>	<u>586</u>	<u>1,068</u>	<u>198</u>	<u>870</u>

Under the terms of the lease arrangements, no contingent rents are recognised and there are no unguaranteed residual values accruing to the Group.

The weighted average effective interest rate of the lease receivables at 31 December 2009 is 5.5% (2008: 5.5%) per annum.

12 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Non-current				
Trade receivables	537	2,872	–	–
Lease prepayments	8,527	4,939	–	–
Amounts due from:				
- subsidiaries (non-trade)	–	–	18,296	19,832
- associates (non-trade)	26,248	36,326	–	–
	<u>35,312</u>	<u>44,137</u>	<u>18,296</u>	<u>19,832</u>
Current				
Trade receivables	26,971	41,017	9	16
Prepayments	3,180	1,868	571	913
Deposits	2,102	2,931	3	3
Advances to suppliers	26,172	29,798	–	–
Staff advances	477	597	–	32
Other receivables	10,406	7,987	634	1,539
Amounts due from:				
- subsidiaries (trade)	–	–	28,960	19,605
- subsidiaries (non-trade)	–	–	487,903	339,908
- joint ventures (trade)	27,301	20	–	–
- joint ventures (non-trade)	22	11	–	–
- associates (trade)	114,441	43,919	–	–
- associates (non-trade)	11,017	23,383	6,548	61
	<u>222,089</u>	<u>151,531</u>	<u>524,628</u>	<u>362,077</u>
Total	<u>257,401</u>	<u>195,668</u>	<u>542,924</u>	<u>381,909</u>

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

12 TRADE AND OTHER RECEIVABLES (cont'd)

At 31 December 2009, trade receivables for the Group included a retention sum of \$5,139,000 (2008: \$5,709,000) relating to construction contracts in progress.

Included in current trade receivables of the Group are note receivables of \$2,516,000 (2008: \$2,007,000) relating to bank documents secured from customers for settlement of payment within the next six months.

Lease prepayments relate to payments made for land use rights and are charged to the income statement on a straight-line basis over the lease term ranging from 10 years to 30 years. The depreciation charge for the year ended 31 December 2009 of \$446,000 (2008: Nil) is included in depreciation, amortisation and impairment in the income statement.

Outstanding balances with subsidiaries, joint ventures and associates are unsecured. There was no allowance for doubtful debts arising from the outstanding balances, except for \$1,035,000 arising from trade amounts due from associates in 2008. The impairment loss of \$1,035,000 recognised was included as part of other expenses in the income statement in 2008.

The non-current non-trade amounts due from subsidiaries are interest-free, have no fixed terms of repayment and are not expected to be repaid within the next 12 months. The fair values of these balances are not determinable as the timing of the future cash flows cannot be reliably estimated.

The non-current non-trade amounts due from associates bear interest at rates ranging from 4.23% to 6.84% (2008: 4.23% to 6.84%) per annum and are repayable between 2011 to 2014.

The current amounts due from subsidiaries, joint ventures and associates are interest-free and are repayable on demand.

The Group's and the Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables, are set out in note 22.

13 DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Tax losses	13,332	13,361	–	–
Deductible temporary differences	18	–	–	–
	<u>13,350</u>	<u>13,361</u>	<u>–</u>	<u>–</u>

Year ended 31 December 2009

13 DEFERRED TAX ASSETS AND LIABILITIES (cont'd)***Unrecognised deferred tax assets*** (cont'd)

The tax losses and deductible temporary differences are subject to agreement by the tax authorities and compliance with tax regulations in the respective countries in which the Company and certain subsidiaries operate. The tax losses and deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Group				
Property, plant and equipment	–	–	667	712
Intangible assets	–	–	5,605	5,548
Tax loss carry-forwards	(2,761)	(2,799)	–	–
Deferred tax (assets)/liabilities	<u>(2,761)</u>	<u>(2,799)</u>	<u>6,272</u>	<u>6,260</u>
Company				
Property, plant and equipment	–	–	–	95
Intangible assets	–	–	–	64
Deferred tax (assets)/liabilities	<u>–</u>	<u>–</u>	<u>–</u>	<u>159</u>

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

13 DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

Movement in temporary differences during the year

	Balance as at 1 January 2008 \$'000	Recognised in profit or loss \$'000	Exchange differences \$'000	Balance as at 31 December 2008 \$'000	Recognised in profit or loss \$'000	Exchange differences \$'000	Balance as at 31 December 2009 \$'000
Group							
Property, plant and equipment	1,285	(573)	-	712	(45)	-	667
Intangible assets	1,590	3,958	-	5,548	57	-	5,605
Tax loss carry-forwards	(1,218)	(1,689)	108	(2,799)	23	15	(2,761)
	1,657	1,696	108	3,461	35	15	3,511
Company							
Property, plant and equipment	95	-	-	95	(95)	-	-
Intangible assets	64	-	-	64	(64)	-	-
	159	-	-	159	(159)	-	-

Notes to the Financial Statements (cont'd)

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14 GROSS AMOUNTS DUE FOR CONTRACT WORK

	Group	
	2009	2008
	\$'000	\$'000
Costs incurred and attributable profits	737,048	391,823
Progress billings	(617,054)	(297,836)
Gross amounts due for contract work	119,994	93,987

15 INVENTORIES

	Group	
	2009	2008
	\$'000	\$'000
Raw materials and consumables	21,384	24,046
Work in progress	7,546	4,201
Finished goods	3,567	5,580
	32,497	33,827

In 2009, the write-down of inventories to net realisable value amounted to \$863,000 (2008: \$366,000) for the Group. The write-down is included as part of other expenses in the income statement.

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	98,861	63,201	4,939	3,686
Fixed deposits with financial institutions	67,874	27,539	57,921	14,556
Cash and cash equivalents	166,735	90,740	62,860	18,242
Cash and fixed deposits of disposal group	-	740		
Cash and cash equivalents in the consolidated cash flow statement	166,735	91,480		

The weighted average effective interest rates relating to cash and cash equivalents, at the balance sheet date for the Group and the Company is 1.17% (2008: 1.91%).

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

17 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

A wastewater treatment facility in the People's Republic of China was presented as held for sale following the decision of the Group's management on 16 December 2008 to sell this disposal group. The sale took place on 30 June 2009. The carrying amount of the disposal group classified as held for sale was \$10,833,000 at 31 December 2008.

Details of the disposal group classified as held for sale at 31 December 2008 were as follows:

	Group 2008 \$'000
Assets	
Financial receivables	9,041
Lease prepayments	1,053
Cash and fixed deposits	740
	<u>10,834</u>
Liabilities	
Other payables and accruals	<u>1</u>

18 TRADE AND OTHER PAYABLES

	Group		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Trade payables	219,109	214,651	–	26
Progress payments from customers	11,026	13,343	–	–
Derivatives	479	–	479	–
Accrued expenses	15,609	9,603	948	731
Other payables	7,974	12,649	3,655	3,477
Amounts due to:				
- subsidiaries (trade)	–	–	58	58
- subsidiaries (non-trade)	–	–	237,173	112,704
- associates (trade)	8,746	6,458	–	–
- associates (non-trade)	2,801	11,530	2,429	1,886
- joint ventures (trade)	28	–	–	–
	<u>265,772</u>	<u>268,234</u>	<u>244,742</u>	<u>118,882</u>

Amounts due to subsidiaries, associates and joint ventures are unsecured, interest-free and repayable on demand.

The Group's and the Company's exposure to currency and liquidity risk related to trade and other payables is described in note 22.

Year ended 31 December 2009

19 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's and the Company's loans and borrowings, which are measured at amortised cost. For more information about the Group's and the Company's exposure to interest rate, foreign currency and liquidity risk, see note 22.

	Group		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Non-current liabilities				
Secured bank loans	–	1,432	–	–
Unsecured bank loans	203,943	206,387	149,282	206,170
Loan from minority shareholders	3,097	–	–	–
Unsecured notes	147,951	–	147,951	–
Finance lease liabilities	27	73	–	–
	<u>355,018</u>	<u>207,892</u>	<u>297,233</u>	<u>206,170</u>
Current liabilities				
Secured bank loans	1,122	721	–	–
Unsecured bank loans	34,137	49,524	34,137	49,524
Unsecured notes	10,000	–	10,000	–
Finance lease liabilities	46	99	–	–
	<u>45,305</u>	<u>50,344</u>	<u>44,137</u>	<u>49,524</u>
Total	<u>400,323</u>	<u>258,236</u>	<u>341,370</u>	<u>255,694</u>

Secured bank loans of the Group are secured by a lien over the inventories and receivables of a subsidiary with carrying amounts of \$68,000 (2008: \$172,000) and \$40,000 (2008: \$199,000) respectively.

Unsecured bank loans of the Company totalling \$178,419,000 (2008: \$230,596,000) are guaranteed by certain subsidiaries of the Group.

The loan from minority shareholders is unsecured, interest-free, has no fixed terms of repayment and is not expected to be repaid within the next 12 months. The fair value of this balance is not determinable as the timing of the future cash flow cannot be reliably determined.

In 2008, the Company established a \$300 million unsecured multi-currency debt issuance programme pursuant to which the Company may, issue notes which bear currency, interest and maturity terms that vary with each series, as may be agreed between the Company and the dealers. As at 31 December 2009, \$157,951,000 of unsecured fixed rate notes were in issue.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

19 LOANS AND BORROWINGS (cont'd)

Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings are as follows:

	Currency	Nominal interest rate	Year of maturity	2009		2008	
				Face value \$'000	Carrying amount \$'000	Face value \$'000	Carrying amount \$'000
Group							
Unsecured bank loans	SGD	3.09%	2010	5,000	5,000	–	–
Unsecured bank loans	SGD	SIBOR + 0.93%	2010-2011	10,000	10,000	72,496	72,496
Unsecured bank loans	USD	LIBOR + 0.93%	2010-2011	171,516	171,516	183,198	183,198
Secured bank loans	EURO	6.00%	2010	1,122	1,122	2,370	2,370
Unsecured bank loans	RMB	5.94%	2023	56,990	54,661	–	–
Unsecured notes	SGD	4.00% - 5.68%	2010-2014	158,500	157,951	–	–
Finance lease liabilities	SGD	6.54% - 6.80%	2010-2011	86	73	200	172
Total loans and borrowings				<u>403,214</u>	<u>400,323</u>	<u>258,264</u>	<u>258,236</u>
Company							
Unsecured bank loans	SGD	3.09%	2010	5,000	5,000	–	–
Unsecured bank loans	SGD	SIBOR + 0.93%	2010-2011	10,000	10,000	72,496	72,496
Unsecured bank loans	USD	LIBOR + 0.93%	2010-2011	168,419	168,419	183,198	183,198
Unsecured notes	SGD	4.00% - 5.68%	2010-2014	158,500	157,951	–	–
Total loans and borrowings				<u>341,919</u>	<u>341,370</u>	<u>255,694</u>	<u>255,694</u>

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments			Future minimum lease payments		
	Interest	Principal	Interest	Principal	Principal	
	2009 \$'000	2009 \$'000	2009 \$'000	2008 \$'000	2008 \$'000	
Group						
Within one year	54	8	46	119	20	99
Between one and five years	32	5	27	81	8	73
	<u>86</u>	<u>13</u>	<u>73</u>	<u>200</u>	<u>28</u>	<u>172</u>

20 CAPITAL AND RESERVES**Share capital**

	Group and Company	
	2009	2008
	No. of shares	
	'000	'000
Ordinary shares		
On issue at 1 January	525,271	523,380
Exercise of share options	2,594	1,891
Exercise of warrants	1,000	–
Purchase of treasury shares	(500)	–
On issue at 31 December	528,365	525,271

Issuance of ordinary shares

3,594,000 (2008: 1,891,000) ordinary shares were issued as a result of the exercise of vested options and warrants arising from the 2001 share option programme granted to key management staff and warrant subscription agreements. Options and warrants were exercised at an average price of \$2.236 per option and \$2.132 per warrant respectively. All issued shares were fully paid.

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets. All issued shares were fully paid up.

Warrant

By a warrant subscription agreement dated 23 November 2004 supplemented by a supplemental warrant subscription agreement dated 25 April 2008 (Agreements) entered into between the Company and Istithmar World PJSC (formerly known as Istithmar PJSC) (Istithmar), Istithmar is entitled to subscribe for 41,216,863 ordinary shares in the Company, subject to the terms and conditions of the Agreements and the warrant instrument. The exercise period is from April 2008 to April 2010.

The exercise price is the higher of (a) \$1.95 and (b) the lower of 70% of the volume-weighted average price for trades in the Company's shares transacted on the Singapore Exchange on the market day immediately preceding the exercise date or in the 30 calendar day period immediately preceding the exercise date.

Reserve for own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. At 31 December 2009, the Group held 500,000 (2008: Nil) of the Company's shares.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

20 CAPITAL AND RESERVES (cont'd)

Capital reserve

The capital reserve comprises:

- (a) capital gain arising from the payment of the Group's subscription to the share capital of a subsidiary by a minority interest; and
- (b) Statutory Reserve Fund ("SRF")

In accordance with the Foreign Enterprise Law in the People's Republic of China ("PRC"), the Group's subsidiaries in the PRC are required to appropriate earnings to a SRF. 10% of the statutory profits after tax as determined in accordance with the applicable PRC accounting standards and regulations are allocated to the SRF annually until the cumulative total of the SRF reaches 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The SRF is not available for dividend distribution to shareholders.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Hedging reserve

The hedging reserve comprises:

- (a) the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred; and
- (b) the Group's share of the hedging reserve of associates.

Employees' share option reserve

The employees' share option reserve represents the equity-settled share options granted to employees. This reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options.

20 CAPITAL AND RESERVES (cont'd)

Dividends

The following dividends were declared and paid by the Group and the Company:

For the year ended 31 December

	Group		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Final tax-exempt dividend paid of 3.43 cents (2008: 1.89 cents) per share in respect of previous financial year	18,020	9,909	18,020	9,909
Dividend paid to minority shareholders	–	609	–	–
	<u>18,020</u>	<u>10,518</u>	<u>18,020</u>	<u>9,909</u>

After the respective reporting dates, the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	Group and Company	
	2009	2008
	\$'000	\$'000
Final tax-exempt dividend of 5.00 cents (2008: 3.43 cents) per share	<u>26,418</u>	<u>18,020</u>

21 SHARE-BASED PAYMENT

Description of the share-based payment arrangements

At 31 December 2009, the Group has the following share-based payment arrangements.

Share option scheme (equity-settled)

The Hyflux Employees' Share Option Scheme (the Scheme) of the Company was approved and adopted by its members at an Extraordinary General Meeting held on 27 September 2001. The Scheme provides an opportunity for employees and directors of the Company and its subsidiaries, other than substantial shareholders of the Company, to participate in the equity of the Company.

On 24 November 2003, the members of the Company approved a modification to the Scheme which allowed Olivia Lum, Group CEO and a substantial shareholder of the Company, to participate in the Scheme. The maximum entitlement of Olivia Lum is 10% of the total number of shares which may be issued by the Company under the Scheme.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

21 SHARE-BASED PAYMENT (cont'd)

Share option scheme (equity-settled) (cont'd)

The Scheme is administered by the Remuneration Committee. It shall continue to be in force at the discretion of the Remuneration Committee for a period of ten years from 27 September 2001. However, the period may be extended with the approval of the members of the Company at a general meeting of the Company and of any relevant authorities which may then be required. The vesting of the options is conditional upon various factors including the directors and employees completing their years of service to the Group. Once these options have been vested, the options are exercisable by an employee during a contractual option term of 10 years (or 5 years for a non-executive director) from the date of the grant of that option. 20% of the options granted are exercisable after the director or employee completing each year of service from the date of the grant. All options are to be settled by physical delivery of shares.

Disclosure of share option scheme

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price 2009 \$	Number of options 2009	Weighted average exercise price 2008 \$	Number of options 2008
Outstanding at 1 January	2.189	28,746,655	2.183	22,336,968
Forfeited during the year	2.380	(2,963,562)	2.670	(2,304,313)
Exercised during the year	1.510	(2,594,000)	1.709	(1,891,000)
Granted during the year	2.207	<u>2,090,000</u>	2.230	<u>10,605,000</u>
Outstanding at 31 December	2.238	<u>25,279,093</u>	2.189	<u>28,746,655</u>
Exercisable at 31 December	2.180	<u>11,613,293</u>	1.930	<u>9,355,255</u>

The options outstanding at 31 December 2009 have an exercise price in the range of \$0.269 to \$3.628 (2008: \$0.269 to \$3.628) and a weighted average contractual life of 6.66 years (2008: 7.35 years).

The weighted average share price at the date of exercise for share options exercised in 2009 was \$2.102 (2008: \$3.157) per share.

Inputs for measurement of grant date fair values

The grant date fair value of the share-based payment plans was measured based on the Black-Scholes standard option valuation model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

Year ended 31 December 2009

21 SHARE-BASED PAYMENT (cont'd)***Fair value of share options and assumptions***

Date of grant of options	26/05/2008	31/10/2008	09/01/2009	15/05/2009	22/10/2009
Fair value at grant date	\$1.000	\$0.544	\$0.921	\$0.429	\$0.628
Share price at grant date	\$3.710	\$1.560	\$1.940	\$1.740	\$3.050
Exercise price	\$3.628	\$1.472	\$1.908	\$1.798	\$3.110
Expected volatility (weighted average volatility)	37%	47%	74%	40%	29%
Option life (expected weighted average life)	100 days	100 days	100 days	100 days	100 days
Expected dividends	0.54%	1.26%	1.55%	1.55%	1.12%
Risk-free interest rate (based on government bonds)	1.52%	1.61%	1.09%	0.71%	0.96%

22 FINANCIAL INSTRUMENTS***Credit risk****Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	Group		Company	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
Financial and lease receivables	11	163,765	197,452	–	–
Trade receivables	12	27,508	43,889	9	16
Deposits	12	2,102	2,931	3	3
Advances to suppliers	12	26,172	29,798	–	–
Staff advances	12	477	597	–	32
Other receivables	12	10,406	7,987	634	1,539
Amounts due from:					
- subsidiaries (trade)	12	–	–	28,960	19,605
- subsidiaries (non-trade)	12	–	–	506,199	359,740
- joint ventures (trade)	12	27,301	20	–	–
- joint ventures (non-trade)	12	22	11	–	–
- associates (trade)	12	114,441	43,919	–	–
- associates (non-trade)	12	37,265	59,709	6,548	61
Loans and receivables		409,459	386,313	542,353	380,996
Cash and cash equivalents	16	166,735	90,740	62,860	18,242
Recognised financial assets		<u>576,194</u>	<u>477,053</u>	<u>605,213</u>	<u>399,238</u>

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

22 FINANCIAL INSTRUMENTS (cont'd)

Credit risk (cont'd)

Exposure to credit risk (cont'd)

The maximum exposure to credit risk for loans and receivables at the reporting date by type of counterparty was:

	Group		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Municipal	360,472	328,959	–	–
Industrial	47,040	55,306	–	–
Others	1,947	2,048	542,353	380,996
	<u>409,459</u>	<u>386,313</u>	<u>542,353</u>	<u>380,996</u>

Impairment losses

The ageing of loans and receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
	2009	2009	2008	2008
	\$'000	\$'000	\$'000	\$'000
Group				
Not past due	399,403	–	362,499	–
Past due 0 to 60 days	566	–	18,173	6
Past due 61 to 120 days	1,881	–	2,765	67
More than 120 days	12,484	4,875	7,920	4,971
	<u>414,334</u>	<u>4,875</u>	<u>391,357</u>	<u>5,044</u>
Company				
Not past due	<u>542,353</u>	<u>–</u>	<u>380,996</u>	<u>–</u>

22 FINANCIAL INSTRUMENTS (cont'd)**Credit risk** (cont'd)*Impairment losses (cont'd)*

The movement in the allowance for impairment in respect of loans and receivables during the year was as follows:

	Group	
	2009	2008
	\$'000	\$'000
At 1 January	5,044	1,902
Impairment loss recognised	2,820	3,794
Impairment loss written off	(1,918)	(18)
Impairment loss written back	(975)	(706)
Effect of movements in exchange rates	(96)	72
At 31 December	4,875	5,044

The impairment loss recognised and written back is included as part of other expenses in the income statement.

The Group and the Company believe that the unimpaired amounts that are past due are still collectible, based on historic payment behaviour and analyses of the customers' underlying credit ratings.

Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of the Group's loans and receivables not past due or past due by up to 120 days at 31 December 2009 as these loans and receivables are mainly due from governing bodies or agencies of the People's Republic of China, or customers that have a good payment record with the Group. Management believes that no impairment allowance is necessary on the Company's loans and receivables as at 31 December 2009.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

22 FINANCIAL INSTRUMENTS (cont'd)

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Group	Cash flows				
	Carrying amount	Contractual cash flows	Within 1 year	Between 1 and 5 years	More than 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000
2009					
Non-derivative financial liabilities					
Variable interest rate loans	242,299	(277,038)	(41,148)	(175,598)	(60,292)
Fixed interest rate notes	157,951	(186,056)	(17,966)	(168,090)	–
Finance lease liabilities	73	(86)	(54)	(32)	–
Trade and other payables*	265,293	(265,293)	(265,293)	–	–
	665,616	(728,473)	(324,461)	(343,720)	(60,292)
Derivative financial liabilities					
Forward exchange contracts					
- Outflow	484	(40,182)	(40,182)	–	–
- Inflow	(5)	39,703	39,703	–	–
2008					
Non-derivative financial liabilities					
Variable interest rate loans	258,064	(277,853)	(59,547)	(217,746)	(560)
Finance lease liabilities	172	(200)	(119)	(81)	–
Trade and other payables	268,234	(268,234)	(268,234)	–	–
	526,470	(546,287)	(327,900)	(217,827)	(560)

Company	Cash flows			
	Carrying amount	Contractual cash flows	Within 1 year	Between 1 and 5 years
	\$'000	\$'000	\$'000	\$'000
2009				
Non-derivative financial liabilities				
Variable interest rate loans	183,419	(187,107)	(36,635)	(150,472)
Fixed interest rate notes	157,951	(186,056)	(17,966)	(168,090)
Trade and other payables*	244,263	(244,263)	(244,263)	–
	585,633	(617,426)	(298,864)	(318,562)

* Excludes derivatives (shown separately)

Year ended 31 December 2009

22 FINANCIAL INSTRUMENTS (cont'd)**Liquidity risk** (cont'd)

	Cash flows			
	Carrying amount \$'000	Contractual cash flows \$'000	Within 1 year \$'000	Between 1 and 5 years \$'000
Company (cont'd)				
2009				
Derivative financial liabilities				
Forward exchange contracts				
- Outflow	484	(40,182)	(40,182)	-
- Inflow	(5)	39,703	39,703	-
2008				
Non-derivative financial liabilities				
Variable interest rate loans	255,694	(275,160)	(58,705)	(216,455)
Trade and other payables	118,882	(118,882)	(118,882)	-
	<u>374,576</u>	<u>(394,042)</u>	<u>(177,587)</u>	<u>(216,455)</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Currency risk*Exposure to currency risk*

The Group's and the Company's exposure to foreign currency risk is as follows based on notional amounts:

	31 December 2009 US dollars \$'000	31 December 2008 US dollars \$'000
	Group	
Trade and other receivables	214,861	72,527
Cash and cash equivalents	92,912	16,138
Loans and borrowings	(171,516)	(183,198)
Trade and other payables	(97,139)	(24,012)
	<u>39,118</u>	<u>(118,545)</u>
Company		
Trade and other receivables	256,244	204,457
Cash and cash equivalents	58,437	3,181
Loans and borrowings	(168,419)	(183,198)
Trade and other payables	(180,820)	(50,678)
	<u>(34,558)</u>	<u>(26,238)</u>

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

22 FINANCIAL INSTRUMENTS (cont'd)

Currency risk (cont'd)

Sensitivity analysis

A 10% strengthening of the Singapore dollar, as indicated below, against the US dollars at 31 December would have increased/(decreased) equity and profit before income tax in the income statement by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below:

	Group		Company	
	Profit before income tax \$'000	Equity* \$'000	Profit before income tax \$'000	Equity \$'000
31 December 2009				
US dollars (10% strengthening)	(13,153)	9,241	3,456	–
31 December 2008				
US dollars (10% strengthening)	(5,889)	17,743	2,624	–

* This amount would impact the profit before income tax over a two year (2008: three year) period upon realisation of the hedging reserve.

A weakening of the Singapore dollar against the above currency at 31 December would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Year ended 31 December 2009

22 FINANCIAL INSTRUMENTS (cont'd)**Interest rate risk***Profile*

At the reporting date, the interest rate profile of the interest-bearing financial instruments was:

	Group		Company	
	Carrying amount		Carrying amount	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Fixed rate instruments				
Finance lease liabilities	(73)	(172)	–	–
Unsecured notes	(157,951)	–	(157,951)	–
	<u>(158,024)</u>	<u>(172)</u>	<u>(157,951)</u>	<u>–</u>
Variable rate instruments				
Variable interest rate loans	<u>(242,299)</u>	<u>(258,064)</u>	<u>(183,419)</u>	<u>(255,694)</u>

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 75 basis points in interest rates at the reporting date would have increased/(decreased) profit before income tax in the income statement by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

	Profit	
	before income tax	
	75 bp	75 bp
	increase	decrease
	\$'000	\$'000
Group		
31 December 2009		
Variable rate instruments	<u>(1,817)</u>	<u>1,817</u>
31 December 2008		
Variable rate instruments	<u>(1,935)</u>	<u>1,935</u>
Company		
31 December 2009		
Variable rate instruments	<u>(1,376)</u>	<u>1,376</u>
31 December 2008		
Variable rate instruments	<u>(1,918)</u>	<u>1,918</u>

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

22 FINANCIAL INSTRUMENTS (cont'd)

Fair values

Fair values versus carrying amounts

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2009 and 2008 except as follows:

		31 December 2009		31 December 2008	
	Note	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Group					
Asset carried at amortised cost					
Amounts due from associates (non-trade)	12	26,248	26,322	36,326	37,356
Liabilities carried at amortised cost					
Unsecured notes	19	(157,951)	(168,122)	–	–
Company					
Liabilities carried at amortised cost					
Unsecured notes	19	(157,951)	(168,122)	–	–

The basis for determining fair values is described in note 30.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and are as follows:

	Group	
	2009	2008
Amounts due from associates (non-trade)	6.0%	4.4%
Unsecured notes	3.0%	–

Year ended 31 December 2009

22 FINANCIAL INSTRUMENTS (cont'd)***Fair value hierarchy***

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Group and Company				
31 December 2009				
Derivatives	–	(479)	–	(479)

23 REVENUE

	Group	
	2009	2008
	\$'000	\$'000
Construction revenue	488,055	544,972
Operating and maintenance income	21,848	8,231
Sale of goods	7,632	520
Finance income	5,684	–
Finance lease income	363	415
Others	1,232	86
	<u>524,814</u>	<u>554,224</u>

24 FINANCE COSTS

	Group	
	2009	2008
	\$'000	\$'000
Interest expense:		
- bank loans	9,241	10,586
- finance lease liabilities	18	18
	<u>9,259</u>	<u>10,604</u>
Interest expense capitalised in property, plant and equipment	–	(382)
	<u>9,259</u>	<u>10,222</u>

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

25 PROFIT BEFORE INCOME TAX

The following items have been included in arriving at profit before income tax:

	Group	
	2009	2008
	\$'000	\$'000
Net foreign currency exchange loss/(gain)	2,110	(10,119)
Rental income from investment property	(329)	(336)
Interest income:		
- fixed deposits with financial institutions	(426)	(780)
- associates	(2,832)	(3,990)
Fair value loss on derivative financial instruments	479	680
Loss on sale of property, plant and equipment	1,392	42
Operating expenses arising from rental of investment property	79	79
Impairment of investments	2,058	-
Impairment loss on trade and other receivables	1,845	3,088
Gain on sale of other investments	(44)	-
Operating lease expense	4,715	3,421
Professional fees paid to firms in which a director is member	26	100
Contribution to defined contribution plans, included in staff costs	4,323	3,558
Employees' share option expense, included in staff costs	3,809	3,552
Research expense	990	722
Government grant under Jobs Credit Scheme	(1,360)	-

26 INCOME TAX EXPENSE

	Group	
	2009	2008
	\$'000	\$'000
Current tax expense		
Current year	9,153	7,646
Overprovided in prior years	(507)	(1,185)
	<u>8,646</u>	<u>6,461</u>
Deferred tax expense		
Origination and reversal of temporary differences	359	1,279
Reduction in tax rate	(334)	-
Underprovided in prior years	10	417
	<u>35</u>	<u>1,696</u>
Income tax expense	<u>8,681</u>	<u>8,157</u>

26 INCOME TAX EXPENSE (cont'd)

	Group	
	2009	2008
	\$'000	\$'000
<i>Reconciliation of effective tax rate</i>		
Profit before income tax	82,972	70,375
Income tax using Singapore tax rate of 17% (2008: 18%)	14,105	12,668
Effect of different tax rates in foreign jurisdictions	1,051	893
Reduction in tax rate	(334)	–
Tax exempt income	(3,750)	(5,103)
Non-deductible expenses	3,416	11,016
Effect of partial tax exemption and tax reliefs	(5,310)	(9,936)
Recognition of previously unrecognised deferred tax assets	–	(613)
Overprovided in prior years	(497)	(768)
	<u>8,681</u>	<u>8,157</u>

The corporate income tax rate applicable to Singapore companies of the Group was reduced to 17% for the Year of Assessment 2010 onwards from 18% for the Year of Assessment 2009.

A subsidiary was granted Pioneer Status in Singapore in respect of the production and sale of membrane systems. Accordingly, the subsidiary enjoys tax exemption on income arising from sale of membrane systems subject to the terms and conditions of the Pioneer Status.

Another subsidiary was awarded a 7-year Development and Expansion Incentive (DEI). Qualifying income earned during this period is taxed at a concessionary rate of 5%.

In accordance with the "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises", certain subsidiaries are entitled to full exemption from Enterprise Income Tax (EIT) for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. A new Corporate Income Tax Law which took effect on 1 January 2008 stated that subsidiaries in the People's Republic of China which have not utilised their five-year tax concessions under the old tax law were required to utilise their first year of tax concession commencing from 2008. In addition, one of the subsidiaries has High-Technology Status which is subject to a tax rate of 15%.

Subsidiaries incorporated in the British Virgin Islands (BVI) are exempt from income taxes in BVI in accordance with local tax laws.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

27 EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 31 December 2009 is based on the profit attributable to ordinary shareholders of \$75,036,000 (2008: \$59,036,000), and a weighted average number of ordinary shares outstanding of 526,173,000 (2008: 524,752,000), calculated as follows:

Weighted average number of ordinary shares

	Note	Group	
		2009	2008
		'000	'000
Issued ordinary shares at 1 January	20	525,271	523,380
Effect of own shares held		(208)	–
Effects of share options and warrants exercised		1,110	1,372
Weighted average number of ordinary shares at 31 December		526,173	524,752

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2009 was based on profit attributable to ordinary shareholders of \$75,036,000 (2008: \$59,036,000), and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 535,475,000 (2008: 537,405,000), calculated as follows:

Weighted average number of ordinary shares (diluted)

		Group	
		2009	2008
		'000	'000
Weighted average number of ordinary shares (basic)		526,173	524,752
Effect of share options on issue		2,193	3,464
Effect of warrants on issue		7,109	9,189
Weighted average number of ordinary shares (diluted) at 31 December		535,475	537,405

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

28 OPERATING SEGMENTS

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- *Municipal.* Supplier of comprehensive range of innovative water and fluid treatment solutions to municipalities and governments, including commissioning, operation and maintenance of a wide range of water treatment and liquid separation plants on a turnkey or Design-Build-Own-Operate-Transfer arrangements.
- *Industrial.* Liquid separation applications for the manufacturing sector such as the pharmaceutical, biotechnology, food processing and petrochemical oil-related industries.

Other operations include emerging segments such as the renewable resources management business. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2009 or 2008.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

28 OPERATING SEGMENTS (cont'd)

Information about reportable segments

	Municipal		Industrial		All other segments		Total	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
External revenue	469,832	482,306	51,222	60,668	3,760	11,250	524,814	554,224
Interest revenue	1,854	3,320	-	-	-	-	1,854	3,320
Interest expense	-	-	(359)	(931)	-	-	(359)	(931)
Depreciation, amortisation and impairment	(4,342)	(3,432)	(1,550)	(1,151)	(5,451)	(2,522)	(11,343)	(7,105)
Reportable segment profit/(loss) before income tax	103,753	81,466	1,120	2,803	(13,236)	(2,040)	91,637	82,229
Share of profit/(loss) of associates, net of income tax	3,262	180	(236)	(62)	(392)	(1,518)	2,634	(1,400)
Reportable segment assets	595,778	493,614	193,465	139,713	63,436	53,853	852,679	687,180
Investments in associates	93,645	70,901	4,911	15,050	4,098	8,765	102,654	94,716
Capital expenditure	3,635	5,988	74,548	2,012	12,970	9,122	91,153	17,122
Reportable segment liabilities	280,163	227,733	36,313	27,585	9,171	16,626	325,647	271,944

Year ended 31 December 2009

28 OPERATING SEGMENTS (cont'd)**Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items**

	2009	2008
	\$'000	\$'000
Revenues		
Total revenue for reportable segments	521,054	542,974
Other revenue	3,760	11,250
Consolidated revenue	<u>524,814</u>	<u>554,224</u>
Profit or loss		
Total profit or loss for reportable segments	104,873	84,269
Other profit or loss	(13,236)	(2,040)
	<u>91,637</u>	<u>82,229</u>
Unallocated amounts:		
- Other corporate expenses	(11,299)	(10,454)
Share of profit/(loss) of associates, net of income tax	2,634	(1,400)
Consolidated profit before income tax	<u>82,972</u>	<u>70,375</u>
Assets		
Total assets for reportable segments	789,243	633,327
Other assets	63,436	53,853
Investments in associates	102,654	94,716
Other unallocated amounts	117,230	64,659
Consolidated total assets	<u>1,072,563</u>	<u>846,555</u>
Liabilities		
Total liabilities for reportable segments	316,476	255,318
Other liabilities	9,171	16,626
Other unallocated amounts	353,514	266,712
Consolidated total liabilities	<u>679,161</u>	<u>538,656</u>

Other material items in 2009

	Reportable segment totals \$'000	Adjustments \$'000	Consolidated totals \$'000
Interest revenue	1,854	1,404 *	3,258
Interest expense	(359)	(8,900) *	(9,259)
Capital expenditure	78,183	24,954 ^	103,137
Depreciation, amortisation and impairment	(5,892)	(10,629) ^	<u>(16,521)</u>

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

28 OPERATING SEGMENTS (cont'd)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items (cont'd)

Other material items in 2008

	Reportable segment totals \$'000	Adjustments \$'000	Consolidated totals \$'000
Interest revenue	3,320	1,450 *	4,770
Interest expense	(931)	(9,291) *	(10,222)
Capital expenditure	8,000	20,300 ^	28,300
Depreciation, amortisation and impairment	(4,583)	(5,135) ^	(9,718)

* This represents interest revenue and interest expenses that are not allocated to segments, as this activity is driven by Group Treasury, which manages the cash position of the Group.

^ This represents capital expenditure and its related depreciation, amortisation and impairment incurred as a result of the overall business strategy adopted by the Group. The allocation of these resources to the various reportable segments cannot be determined.

Geographical information

31 December 2009

	Revenues \$'000	Non- current assets \$'000
Middle East and North Africa	330,523	62,404
People's Republic of China	181,327	382,308
Singapore	12,964	78,718
	524,814	523,430

31 December 2008

	Revenues \$'000	Non- current assets \$'000
Middle East and North Africa	223,039	13,106
People's Republic of China	314,734	370,684
Singapore	16,451	78,598
	554,224	462,388

29 ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS***Business combination***

On 9 July 2009, the Group acquired an additional 41.5% interest in Lube Oil Re-refining Co., LLC, increasing its ownership from 41.5% to 83.0%.

On 6 October 2009, the Group acquired an additional 23.5% interest in Sinolac (Singapore) Pte. Ltd., increasing its ownership from 27.5% to 51.0%. Out of the 23.5% additional interest acquired, 1.0% was acquired from a director of the Company at a consideration of \$371,000.

The companies became subsidiaries of the Group after the acquisitions and the investments were reclassified from associates to subsidiaries accordingly. The companies' contributions to the Group's consolidated net profit for the year ended 31 December 2009 were not significant. The Group's revenue and net profit for the year ended 31 December 2009 would not be significantly different from those recognised in the consolidated income statement had the acquisitions occurred on 1 January 2009.

The acquisitions had the following effect on the Group's assets and liabilities on acquisition date:

	Pre- acquisition carrying amounts \$'000	Fair value adjustments \$'000	Recognised values on acquisition \$'000
Property, plant and equipment	80,460	1,482	81,942
Intangible assets	3,290	–	3,290
Inventories	1,871	–	1,871
Trade and other receivables	8,684	–	8,684
Cash and cash equivalents	1,307	–	1,307
Loans and borrowings	(38,377)	–	(38,377)
Trade and other payables	(11,056)	–	(11,056)
Net identifiable assets and liabilities	46,179	1,482	47,661
Minority interests			(18,954)
Goodwill on acquisition			7,667
Amount previously accounted for as investments in associates			(15,102)
Consideration paid, satisfied in cash			21,272
Cash acquired			(1,307)
Net cash outflow			19,965

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

29 ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS (cont'd)

Business combination (cont'd)

Pre-acquisition carrying amounts were determined based on applicable FRS immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values.

The goodwill recognised on the acquisitions is attributable mainly to the future profitability and control premium.

Acquisition of minority interests

On 19 January 2009, the Group acquired an additional 30% interest in Hyflux CEPAration B.V., increasing its ownership from 70% to 100%. The Group recognised a goodwill arising from the acquisition of minority interest of \$1,715,000.

30 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

Intangible assets

The fair value of intangible assets received as consideration for providing construction services in a service concession arrangement is estimated by reference to the fair value of the construction services provided. The fair value of the construction services provided is calculated as the estimated total cost plus a profit margin which the Group considers as a reasonable margin. When the Group receives an intangible asset and a financial asset as consideration for providing construction services in a service concession arrangement, the Group estimates the fair value of intangible assets as the difference between the fair value of the construction services provided and the fair value of the financial asset received.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

30 DETERMINATION OF FAIR VALUES (cont'd)

Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Investments in equity securities

It is not practicable to reliably estimate the fair value of available-for-sale unquoted investments due to the lack of quoted market prices in an active market, significant range of reasonable fair value estimates, and the inability to reasonably assess the probabilities of the various estimates.

Trade and other receivables

The fair value of trade and other receivables, including service concession receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

It is not practicable to reliably estimate the fair value of non-current non-trade amounts due from subsidiaries as the timing of the future cash flows arising from these balances cannot be determined reliably.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

Intra-group financial guarantees

The value of financial guarantees provided by the Company to its subsidiaries is determined by reference to the difference in the interest rates, by comparing the actual rates charged by the bank with these guarantees made available, with the estimated rates that the banks would have charged had these guarantees not been made available.

Share-based payment transactions

The fair value of the employees' share options is measured using the Black-Scholes standard option valuation model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the grants are not taken into account in determining the fair value of the options.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

31 FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes regular reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

The Group has a credit policy in place which establishes credit limits for all customers and monitors their balances on an ongoing basis.

31 FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

Trade and other receivables (cont'd)

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Guarantees

The Group's policy is to provide financial guarantees only to subsidiaries and joint ventures.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains lines of credit that can be drawn down to meet short-term financing needs.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

31 FINANCIAL RISK MANAGEMENT (cont'd)

Capital management

The primary objective of the Group's capital management is to support the Group's growth strategy and maximise shareholder value with the optimal capital structure.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital. The Group includes within net debt, loans and borrowings, less cash and cash equivalents. Total equity of the Group represents capital for the Group.

	Group	
	2009	2008
	\$'000	\$'000
Loans and borrowings	400,323	258,236
Less: Cash and cash equivalents	(166,735)	(90,740)
Net debt	<u>233,588</u>	<u>167,496</u>
Total equity	<u>393,402</u>	<u>307,899</u>
Gearing ratio	<u>59%</u>	<u>54%</u>

From time to time, the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily, the shares are intended to be used for issuing shares under the Group's share option programme. Buy and sell decisions are made on a specific transaction basis by the Risk Management Committee; the Group does not have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the year.

The Group and its subsidiaries are not subject to externally imposed capital requirements other than the following:

- (i) Certain subsidiaries of the Group are required by the Foreign Enterprise Law of the People's Republic of China (PRC) to contribute to and maintain a non-distributable Statutory Reserve Fund (SRF) whose utilisation is subject to approval by the relevant PRC authorities (see note 20).
- (ii) The Company is required under a financial covenant clause to maintain a consolidated total tangible net worth for the Group of not less than \$160 million.

These externally imposed capital requirements have been complied with by the Company and the relevant subsidiaries for the financial year ended 31 December 2009.

32 OPERATING LEASES***Leases as lessee***

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2009	2008
	\$'000	\$'000
Within one year	4,047	3,352
Between one and five years	15,538	12,882
More than five years	52,327	35,002
	71,912	51,236

The Group has various operating lease agreements for office equipment, offices and rental of land. Most leases contain renewable options and some leases contain escalation clauses. The lease terms typically do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing.

Leases as lessor

The Group leases out its investment property held under operating leases (see note 6). The future minimum lease payments under non-cancellable leases are as follows:

	Group	
	2009	2008
	\$'000	\$'000
Within one year	336	336

33 CAPITAL COMMITMENTS

- (i) At 31 December 2009, the Group has outstanding commitments in respect of uncalled capital of approximately US\$40,500,000 (2008: US\$77,500,000) in associates.
- (ii) At 31 December 2009, the Group has outstanding capital commitments of \$6,252,000 (2008: \$7,630,000).

34 CONTINGENT LIABILITIES

The Company has given formal undertakings to provide financial support to certain subsidiaries with deficit shareholders' equity for at least the next twelve months from the balance sheet date.

Notes to the Financial Statements (cont'd)

Year ended 31 December 2009

35 RELATED PARTIES

Transactions with key management personnel

Key management personnel

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group. The Directors and Management Committee of the Company and the Group are considered as key management personnel of the Company and the Group.

Key management personnel compensation comprised:

	Group	
	2009	2008
	\$'000	\$'000
Directors' fees	577	574
Short-term employee benefits	3,393	2,519
Share-based payments	690	800
	4,660	3,893
Comprise amounts paid/payable to:		
- Directors of the company	1,764	1,443
- Other key management personnel	2,896	2,450
	4,660	3,893

The directors of the Company also participate in the Hyflux Employees' Share Option Scheme. Details of options granted to the directors under the Scheme are described in note 21.

Other related party transactions

Other than as disclosed elsewhere in the financial statements, transactions carried out in the normal course of business on terms agreed with related parties are as follows:

	Group	
	2009	2008
	\$'000	\$'000
Joint venture		
Management fee income	–	88
Rental income	27	36
Associates		
Revenue from construction contracts	335,631	70,823
Revenue from maintenance contracts	17,731	6,778
Management fee income	885	1,106

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HYFLUX LTD AND ITS
SUBSIDIARIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

The information in this Appendix IV has been reproduced from the annual report of Hyflux Ltd and its subsidiaries for the financial year ended 31 December 2010 and has not been specifically prepared for inclusion in this Information Memorandum.

Independent Auditors' Report

Members of the Company
Hyflux Ltd

Report on the financial statements

We have audited the accompanying financial statements of Hyflux Ltd (the Company) and its subsidiaries (the Group), which comprise the statement of financial position of the Group and the Company as at 31 December 2010, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 44 to 107.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and statement of financial position and to maintain accountability of assets.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010 and the results, changes in equity and cash flows of the Group for the year ended on that date.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

KPMG LLP
Public Accountants and
Certified Public Accountants

Singapore

8 March 2011

Statement of Financial Position

As at 31 December 2010

	Note	Group		Company	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Non-current assets					
Property, plant and equipment	4	155,826	134,926	–	–
Intangible assets	5	62,075	61,744	1,779	1,810
Intangible assets arising from service concession arrangements	6	129,494	27,871	–	–
Investment property	7	–	2,116	–	–
Investments in subsidiaries	8	–	–	119,820	130,920
Investments in joint venture	9	–	–	3,125	3,125
Investments in associates	10	75,032	102,654	13,320	12,955
Other investments	11	–	99	–	–
Financial receivables	12	226,149	155,947	–	–
Trade and other receivables	13	15,816	35,312	16,924	18,296
Deferred tax assets	14	1,616	2,761	–	–
Total non-current assets		666,008	523,430	154,968	167,106
Current assets					
Gross amounts due for contract work	15	254,469	119,994	–	–
Inventories	16	26,261	32,497	–	–
Financial receivables	12	5,851	7,818	–	–
Trade and other receivables, including derivatives	13	182,398	222,089	608,382	524,628
Other investments	11	2,429	–	2,429	–
Cash and cash equivalents	17	222,286	166,735	65,656	62,860
Total current assets		693,694	549,133	676,467	587,488
Current liabilities					
Trade and other payables, including derivatives	18	210,038	265,772	73,480	244,742
Loans and borrowings	19	95,660	45,305	52,538	44,137
Tax payable		10,251	6,794	2,893	–
Total current liabilities		315,949	317,871	128,911	288,879
Net current assets		377,745	231,262	547,556	298,609
Non-current liabilities					
Loans and borrowings	19	503,606	355,018	443,668	297,233
Deferred tax liabilities	14	25,640	6,272	–	–
Total non-current liabilities		529,246	361,290	443,668	297,233
Net assets		514,507	393,402	258,856	168,482
Equity					
Share capital		207,474	105,114	207,474	105,114
Reserve for own shares		(1,292)	(1,292)	(1,292)	(1,292)
Capital reserve		4,752	8,627	–	–
Foreign currency translation reserve		(14,637)	4,543	–	–
Hedging reserve		(3,560)	(6,716)	–	–
Employees' share option reserve		18,609	16,780	18,609	16,780
Retained earnings		291,155	238,188	34,065	47,880
Total equity attributable to equity holders of the Company		502,501	365,244	258,856	168,482
Non-controlling interests		12,006	28,158	–	–
Total equity	20	514,507	393,402	258,856	168,482

The accompanying notes form an integral part of these financial statements.

Consolidated Income Statement

Year ended 31 December 2010

	Note	2010 \$'000	2009 \$'000
Revenue	23	569,737	524,814
Other income		6,855	6,707
Changes in inventories of finished goods and work-in-progress		2,641	1,332
Raw materials and consumables used and subcontractors' cost		(302,961)	(309,371)
Staff costs		(65,408)	(59,428)
Depreciation, amortisation and impairment		(27,501)	(16,521)
Other expenses		(68,089)	(57,936)
Finance costs	24	(16,760)	(9,259)
Share of profit of associates, net of income tax		1,959	2,634
Profit before income tax	25	100,473	82,972
Income tax expense	26	(11,588)	(8,681)
Profit for the year		88,885	74,291
Profit attributable to:			
Owners of the Company		88,510	75,036
Non-controlling interests		375	(745)
Profit for the year		88,885	74,291
Earnings per share (cents)			
Basic earnings per share	27	10.52	9.51
Diluted earnings per share	27	10.23	9.34

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010	2009
	\$'000	\$'000
Profit for the year	88,885	74,291
Other comprehensive income		
Foreign currency translation differences for foreign operations	(20,310)	(5,117)
Share of net fair value gain on derivative financial instruments of associates	424	644
Effective portion of changes in fair value of cash flow hedges	2,301	67
Net change in fair value of cash flow hedges transferred to profit or loss	431	6,069
Share of reserve of associates	(102)	102
Other comprehensive (loss)/income for the year, net of income tax	(17,256)	1,765
Total comprehensive income for the year	71,629	76,056
Attributable to:		
Owners of the Company	72,384	77,204
Non-controlling interests	(755)	(1,148)
Total comprehensive income for the year	71,629	76,056

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

Group	Share capital \$'000	Reserve for own shares \$'000	Capital reserve \$'000	Foreign currency translation reserve \$'000	Hedging reserve \$'000	Employees' share option reserve \$'000	Retained earnings \$'000	Total equity attributable to equity holders of the Company \$'000	Non-controlling interests \$'000	Total equity \$'000
At 1 January 2010	105,114	(1,292)	8,627	4,543	(6,716)	16,780	238,188	365,244	28,158	393,402
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	88,510	88,510	375	88,885
Other comprehensive income										
Foreign currency translation differences for foreign operations	-	-	-	(19,180)	-	-	-	(19,180)	(1,130)	(20,310)
Share of net fair value gain on derivative financial instruments of associates	-	-	-	-	424	-	-	424	-	424
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	2,301	-	-	2,301	-	2,301
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	-	431	-	-	431	-	431
Share of reserve of associates	-	-	(102)	-	-	-	-	(102)	-	(102)
Total comprehensive (loss)/income for the year	-	-	(102)	(19,180)	3,156	-	88,510	72,384	(755)	71,629
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Issue of shares for cash under Employees' Share Option Scheme	6,181	-	-	-	-	-	-	6,181	-	6,181
Issue of shares for cash under warrant subscription agreements	96,179	-	-	-	-	-	-	96,179	-	96,179
Value of employee services received for issue of share options	-	-	-	-	-	1,829	-	1,829	-	1,829
Transfer to capital reserve	-	-	1,321	-	-	-	(1,321)	-	-	-
Dividends to equity holders	-	-	-	-	-	-	(34,222)	(34,222)	-	(34,222)
Total contributions by and distributions to owners	102,360	-	1,321	-	-	1,829	(35,543)	69,967	-	69,967
Changes in ownership interests in subsidiaries										
Acquisition of non-controlling interests without a change in control	-	-	(5,094)	-	-	-	-	(5,094)	(15,397)	(20,491)
Total changes in ownership interests in subsidiaries	-	-	(5,094)	-	-	-	-	(5,094)	(15,397)	(20,491)
Total transactions with owners	102,360	-	(3,773)	-	-	1,829	(35,543)	64,873	(15,397)	49,476
At 31 December 2010	207,474	(1,292)	4,752	(14,637)	(3,560)	18,609	291,155	502,501	12,006	514,507

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity (cont'd)

Year ended 31 December 2010

Group	Share capital \$'000	Reserve for own shares \$'000	Capital reserve \$'000	Foreign currency translation reserve \$'000	Hedging reserve \$'000	Employees' share option reserve \$'000	Retained earnings \$'000	Total equity attributable to equity holders of the Company \$'000	Non-controlling interests \$'000	Total equity \$'000
At 1 January 2009	99,118	-	7,204	9,257	(13,496)	12,971	182,493	297,547	10,352	307,899
Total comprehensive income for the year										
Profit/(loss) for the year	-	-	-	-	-	-	75,036	75,036	(745)	74,291
Other comprehensive income										
Foreign currency translation differences for foreign operations	-	-	-	(4,714)	-	-	-	(4,714)	(403)	(5,117)
Share of net fair value gain on derivative financial instruments of associates	-	-	-	-	644	-	-	644	-	644
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	67	-	-	67	-	67
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	-	6,069	-	-	6,069	-	6,069
Share of reserve of associates	-	-	102	-	-	-	-	102	-	102
Total comprehensive income/(loss) for the year	-	-	102	(4,714)	6,780	-	75,036	77,204	(1,148)	76,056
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Issue of shares for cash under Employees' Share Option Scheme	3,863	-	-	-	-	-	-	3,863	-	3,863
Issue of shares for cash under warrant subscription agreements	2,133	-	-	-	-	-	-	2,133	-	2,133
Own shares acquired	-	(1,292)	-	-	-	-	-	(1,292)	-	(1,292)
Value of employee services received for issue of share options	-	-	-	-	-	3,809	-	3,809	-	3,809
Transfer to capital reserve	-	-	1,321	-	-	-	(1,321)	-	-	-
Dividends to equity holders	-	-	-	-	-	-	(18,020)	(18,020)	-	(18,020)
Total contributions by and distributions to owners	5,996	(1,292)	1,321	-	-	3,809	(19,341)	(9,507)	-	(9,507)
Changes in ownership interests in subsidiaries										
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	18,954	18,954
Total changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	-	18,954	18,954
Total transactions with owners	5,996	(1,292)	1,321	-	-	3,809	(19,341)	(9,507)	18,954	9,447
At 31 December 2009	105,114	(1,292)	8,627	4,543	(6,716)	16,780	238,188	365,244	28,158	393,402

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2010

	Note	2010 \$'000	2009 \$'000
Cash flows from operating activities			
Profit before income tax		100,473	82,972
Adjustments for:			
Employees' share option expense		1,829	3,809
Fair value (gain)/loss on derivative financial instruments		(754)	479
Gain on sale of investment property	25	(1,186)	–
Remeasurement to fair value of an associate to joint venture	25	(22,787)	–
Gain on sale of other investments		–	(44)
Loss on sale of property, plant and equipment	25	380	1,392
Share of profit of associates, net of income tax		(1,959)	(2,634)
Depreciation, amortisation and impairment		27,501	16,521
Finance costs		16,760	9,259
Interest income		(3,125)	(3,258)
Impairment of trade and other receivables	25	1,526	1,845
Impairment of investments	25	264	2,058
Allowance for inventory obsolescence	16	1,412	863
		120,334	113,262
Change in inventories		4,840	2,319
Change in gross amounts due for contract work		(134,475)	(26,007)
Change in trade and other receivables		10,154	(67,176)
Change in financial receivables		7,142	40,665
Change in intangible assets arising from service concession arrangements		4,291	–
Change in trade and other payables		(53,448)	5,316
Cash generated from operating activities		(41,162)	68,379
Income tax paid		(8,305)	(7,773)
Net cash (used in)/from operating activities		(49,467)	60,606
Cash flows from investing activities			
Acquisition of property, plant and equipment	4	(28,111)	(8,594)
Acquisition of intangible assets		(12,858)	(29,669)
Acquisition of non-controlling interests	29	(20,491)	–
Acquisition of a subsidiary by a joint venture/subsidiaries, net of cash acquired	29	(27,212)	(19,965)
Investment in available-for-sale money market instrument		(2,429)	–
Additional investment in an associate		(23,691)	(27,626)
Proceeds from sale of investment property		3,237	–
Proceeds from sale of property, plant and equipment		937	364
Proceeds from sale of other investments		–	853
Dividends received from associates		10,179	1,260
Change in amounts due from related parties (non-trade)		1,955	(12,393)
Interest received		2,760	2,912
Net cash used in investing activities		(95,724)	(92,858)

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement (cont'd)

Year ended 31 December 2010

	Note	2010 \$'000	2009 \$'000
Cash flows from financing activities			
Proceeds from exercise of share options and warrants		102,360	5,996
Purchase of treasury shares		–	(1,292)
Proceeds from borrowings		383,447	425,698
Repayment of borrowings		(221,832)	(291,003)
Payment of finance lease liabilities		(73)	(99)
Interest paid		(16,297)	(8,689)
Dividends paid to equity holders of the Company		(34,222)	(18,020)
Increase in deposits pledged		(204)	–
Net cash from financing activities		213,179	112,591
Net increase in cash and cash equivalents			
Cash and cash equivalents at 1 January		67,988	80,339
Cash and cash equivalents at 1 January		166,735	91,480
Effect of exchange rate fluctuations on cash held		(12,641)	(5,084)
Cash and cash equivalents at 31 December	17	222,082	166,735

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 8 March 2011.

1 DOMICILE AND ACTIVITIES

Hyflux Ltd (the "Company") is incorporated in the Republic of Singapore. The address of the Company's registered office is Hyflux Building, 202 Kallang Bahru, Singapore 339339.

The consolidated financial statements relate to the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in associates and jointly controlled entities.

The principal activities of the Company are those relating to investment holding.

The principal activities of the subsidiaries comprise the following:

Water

- Seawater desalination, raw water purification, wastewater cleaning, water recycling, water reclamation and ultra pure water production for municipal and industrial clients as well as home consumer filtration and purification products; and
- Design, building and sale of water treatment plants, seawater desalination plants, wastewater treatment plants and water recycling plants under service concession arrangements.

Renewable Resources Management

- Development of membrane applications in resource recovery, waste recycling and energy reclamation, including applications such as used oil recovery and recycling;
- Development and commercialisation of specialty materials, such as L-lactic acid from natural renewable resources; and
- Separation, concentration and purification treatments for manufacturing process streams.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

2.3 Functional and presentation currency

These financial statements are presented in Singapore dollars, which is the Company's functional currency. Other significant entities within the Group have Chinese Renminbi and Algerian Dinar as their functional currency. All financial information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Notes to the Financial Statements (cont'd)

2 BASIS OF PREPARATION (cont'd)

2.4 Use of estimates and judgements (cont'd)

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 5 on capitalisation of development costs.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 4 – residual values and useful lives of property, plant and equipment;
- Note 5 – useful lives and recoverability of development projects;
- Note 22 – recoverability of trade and other receivables; and
- Note 34 – contingencies.

2.5 Changes in accounting policies

Overview

On the adoption of new and revised FRSs as of 1 January 2010, the Group changed its accounting policies in the following areas:

- Accounting for business combinations
- Accounting for acquisition of non-controlling interest and disposal of interest in subsidiary that resulted in loss of control

Accounting for business combinations

From 1 January 2010, the Group has applied FRS 103 *Business Combinations* (2009) in accounting for business combinations. Business combinations are now accounted for using the acquisition method as at the acquisition date (see note 3.1).

Previously, business combinations were accounted for under the purchase method. The cost of an acquisition was measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition was credited to profit or loss in the period of the acquisition. For business acquisitions that were achieved in stages, any existing equity interests in the acquiree were not re-measured to their fair value. Contingent consideration was recognised as an adjustment to the cost of acquisition only when it was probable and can be measured reliably.

The change in accounting policy has been applied prospectively to new business combinations occurring on or after 1 January 2010. As a result of adopting the change in accounting policy, the Group recorded a gain arising from remeasurement to fair value arising from acquisition of additional interest in an associate to be a joint venture as disclosed in note 25.

Accounting for acquisitions of non-controlling interests and disposal of interest in subsidiary that resulted in loss of control

From 1 January 2010, the Group has applied FRS 27 *Consolidated and Separate Financial Statements* (2009) to account for acquisitions of non-controlling interests and disposal of interest in subsidiary that resulted in loss of control.

Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction. For disposal of interest in subsidiary that resulted in loss of control, any retained equity interests were not remeasured to their fair value and the gain or loss arising from the disposal was recognised on the portion of equity interest disposed.

The change in accounting policies have been applied prospectively.

Notes to the Financial Statements (cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, except as explained in note 2.5 which addresses changes in accounting policies.

3.1 Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

For business acquisitions that were achieved in stages, the Group remeasures any existing interests in the acquiree and recognises the resulting gain or loss in profit or loss. Subsequently, it is accounted for as a jointly controlled entity or a subsidiary, depending on the level of control obtained.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as a jointly-controlled entity, an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Joint ventures are accounted for using proportionate consolidation. The financial statements of joint ventures are proportionately consolidated from the date that joint control commences until the date that joint control ceases. The accounting policies of joint ventures have been changed where necessary to align them with the policies adopted by the Group.

Notes to the Financial Statements (cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Basis of consolidation (cont'd)

Associates

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of voting power of another entity.

Associates are accounted for using the equity method and are recognised initially at cost. The Group's investments include goodwill identified on acquisition, net of accumulated impairment losses. The financial statements include the Group's share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Acquisition of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are eliminated in the same way as unrealised gains except that losses are recognised immediately when they represent a reduction in the net realisable value of assets or an impairment loss. Balances with joint ventures are eliminated to the extent of the Group's interest in the joint ventures.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Accounting for subsidiaries, joint ventures and associates by the Company

Investments in subsidiaries, joint ventures and associates are stated in the Company's statement of financial position at cost less accumulated impairment losses.

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Notes to the Financial Statements (cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Foreign currency (cont'd)

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Singapore dollars at exchange rates at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the closing rate. For acquisitions prior to 1 January 2005, the exchange rates at the date of acquisition were used.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item which is considered to form part of a net investment in a foreign operation are recognised in other comprehensive income, and are presented as equity in the foreign currency translation reserve.

3.3 Financial instruments

Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables and financial receivables arising from including service concession arrangements.

Cash and cash equivalents comprise cash balances and bank deposits.

Notes to the Financial Statements (cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Financial instruments (cont'd)

Non-derivative financial assets (cont'd)

Loans and receivables (cont'd)

The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition, the financial assets are measured at amortised cost.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, each component of the consideration received or receivable is accounted for separately and is recognised initially at the fair value of the consideration received or receivable (see also note 3.5).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities are classified as available-for-sale financial assets.

Where an investment in equity securities classified as available-for-sale does not have a quoted market price in an active market and other methods of determining fair value do not result in a reasonable estimate, the investment is measured at cost less impairment losses.

Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Intra-group financial guarantees

Financial guarantees are financial instruments issued by the Group that requires the issuer to make specified payments to reimburse the holder for the loss incurred because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are recognised initially at fair value and are classified as financial liabilities. Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised if they were accounted for as contingent liabilities. When financial guarantees are terminated before their original expiry date, the carrying amount of the financial guarantees is transferred to the income statement.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Notes to the Financial Statements (cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Financial instruments (cont'd)

Share capital (cont'd)

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% - 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the income statement as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, or exercised, or if the designation is revoked, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, the balance in other comprehensive income is recognised immediately in profit or loss. In other cases, the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

Notes to the Financial Statements (cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other expenses in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Construction-in-progress is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Plant and machinery	–	4 to 10 years
Motor vehicles	–	4 to 5 years
Computers	–	1 to 5 years
Office equipment	–	4 to 5 years
Leasehold properties and improvements	–	4 to 5 years or over the lease period
Furniture and fittings	–	4 to 5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.5 Intangible assets

Goodwill

Acquisitions prior to 1 January 2001

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquiree.

Goodwill and negative goodwill on acquisitions were written off against retained profits in the year of acquisition.

Goodwill and negative goodwill that have previously been taken to reserves are not taken to the income statement when (a) the business is disposed of or (b) the goodwill is impaired.

Notes to the Financial Statements (cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Intangible assets (cont'd)

Goodwill (cont'd)

Acquisitions occurring between 1 January 2001 and 1 January 2005

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquiree.

Goodwill arising on the acquisition of subsidiaries and joint ventures is presented in intangible assets. Goodwill arising on the acquisition of associates is presented together with investments in associates.

Goodwill was stated at cost from the date of initial recognition and amortised over its estimated useful life of not more than 20 years. On 1 January 2005, the Group discontinued amortisation of this goodwill. This remaining goodwill balance is subject to testing for impairment.

Negative goodwill was derecognised by crediting retained profits on 1 January 2005.

Acquisitions on or after 1 January 2005

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill arising on the acquisition of subsidiaries and joint ventures is presented in intangible assets. Goodwill arising on the acquisition of associates is presented together with investments in associates.

Goodwill is measured at cost less accumulated impairment losses, and tested for impairment. Negative goodwill is recognised immediately in the income statement.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Service concession arrangements

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition. Subsequent to initial recognition the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and accumulated impairment losses.

Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Notes to the Financial Statements (cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Intangible assets (cont'd)

Amortisation

Amortisation is calculated over the cost of the asset, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Intellectual property rights	–	10 years
Capitalised development costs	–	8 years (2009: 10-15 years)
Licensing fees	–	10 to 20 years
Service concession arrangements	–	10 to 25 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

During the year, the Group revised its estimates for the useful lives of development costs from 10-15 years to 8 years. The reasons and impact of the change are discussed in note 5.

The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period.

3.6 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, or use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured at cost less accumulated depreciation and impairment losses.

Depreciation on investment properties is recognised in the income statement on a straight-line basis over the lease term of 26 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end, and adjusted if appropriate.

3.7 Leased assets

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position.

3.8 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Notes to the Financial Statements (cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Gross amounts due for contract work

Gross amounts due for contract work represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Gross amounts due for contract work are presented as part of assets in the statement of financial position. If payments received from customers exceed the income recognised, the difference is presented as part of liabilities in the statement of financial position.

3.10 Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, and indications that a debtor will enter bankruptcy.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then assessed collectively for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to time value are reflected as a component of interest income.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

Notes to the Financial Statements (cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Impairment (cont'd)

Non-financial assets (cont'd)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

3.11 Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale, and subsequent gains or losses on remeasurement, are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3.12 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Notes to the Financial Statements (cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Employee benefits (cont'd)

Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

3.13 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.14 Revenue

Construction revenue - Construction contracts and sale of plants under service concession arrangements

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss. Net revenue from the sale of plants under service concession arrangements previously not recognised as construction revenue under the service concession arrangements is recognised when significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, and the amount of revenue can be measured reliably.

Revenue relating to construction or upgrade services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contract (see above). Operation or service revenue is recognised in the period in which the services are provided by the Group. When the Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered.

Operating and maintenance income

Revenue from the provision of operating and maintenance services is recognised when the services are rendered.

Notes to the Financial Statements (cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.14 Revenue (cont'd)

Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognised as a reduction of revenue as the sales are recognised.

Transfers of risks and rewards occur upon delivery to customers.

Finance income

Finance income represents the interest income on the financial receivable arising from a service concession arrangement, and is recognised in the income statement using the effective interest method.

Finance lease income

Finance lease income is recognised on the accrual basis, taking into account the effective yield of the asset.

Others

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

3.15 Government grants

The government grants are deducted against the carrying amounts of the assets when there is reasonable assurance that government grants will be received to compensate the Group for the cost of an asset and the Group will comply with the conditions associated with the grant.

Jobs Credit Scheme

Cash grants received from the Singapore government in relation to the Jobs Credit Scheme are recognised as income upon receipt.

3.16 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.17 Finance costs

Finance costs comprise interest expense on borrowings that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Notes to the Financial Statements (cont'd)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.18 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.19 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for the Company's holding of its own shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, less the Company's own shares held, and adjusted for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

3.20 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3.21 New standards and interpretations not yet adopted

A number of new standards amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group.

Notes to the Financial Statements (cont'd)

4 PROPERTY, PLANT AND EQUIPMENT

	Note	Plant and machinery \$'000	Motor vehicles \$'000	Computers \$'000	Office equipment \$'000	Leasehold properties and improvements \$'000	Furniture and fittings \$'000	Construction- in-progress \$'000	Total \$'000
Group									
Cost									
At 1 January 2009		20,940	3,138	7,423	2,154	24,779	1,435	18,492	78,361
Acquisitions through business combinations	29	11,782	157	28	23	13,363	29	56,560	81,942
Additions		864	117	2,339	124	892	278	3,980	8,594
Transfers		8,296	–	1,160	12	8,512	–	(17,980)	–
Disposals		(2,039)	(252)	(262)	(32)	(84)	(16)	–	(2,685)
Effect of movements in exchange rates		(1,026)	(31)	(58)	(6)	(685)	(11)	(1,188)	(3,005)
At 31 December 2009 and 1 January 2010		38,817	3,129	10,630	2,275	46,777	1,715	59,864	163,207
Acquisitions through business combinations	29	–	–	–	–	6,942	328	–	7,270
Additions		2,195	788	1,103	390	4,688	181	18,766	28,111
Transfers		583	–	–	(24)	7,712	25	(8,296)	–
Transfer from intangible assets	5	3,058	–	–	–	104	–	–	3,162
Transfer from lease prepayment		–	–	–	–	9,540	–	–	9,540
Disposals		(1,992)	(906)	(69)	(33)	(361)	(12)	–	(3,373)
Effect of movements in exchange rates		(2,311)	(128)	(97)	(50)	(2,026)	(23)	(2,922)	(7,557)
At 31 December 2010		40,350	2,883	11,567	2,558	73,376	2,214	67,412	200,360
Accumulated depreciation and impairment losses									
At 1 January 2009		9,397	1,805	4,386	1,258	4,213	445	–	21,504
Depreciation for the year		3,229	454	1,444	268	2,005	416	–	7,816
Disposals		(381)	(224)	(237)	(17)	(54)	(16)	–	(929)
Effect of movements in exchange rates		25	(6)	(27)	1	(105)	2	–	(110)
At 31 December 2009 and 1 January 2010		12,270	2,029	5,566	1,510	6,059	847	–	28,281
Depreciation for the year		3,874	350	2,092	246	3,287	263	–	10,112
Disposals		(1,123)	(752)	(53)	(12)	(104)	(12)	–	(2,056)
Impairment loss		2,901	–	–	–	–	–	4,956	7,857
Transfer from lease prepayment		–	–	–	–	1,343	–	–	1,343
Effect of movements in exchange rates		(721)	(70)	9	(49)	(183)	11	–	(1,003)
At 31 December 2010		17,201	1,557	7,614	1,695	10,402	1,109	4,956	44,534
Carrying amounts									
At 1 January 2009		11,543	1,333	3,037	896	20,566	990	18,492	56,857
At 31 December 2009 and 1 January 2010		26,547	1,100	5,064	765	40,718	868	59,864	134,926
At 31 December 2010		23,149	1,326	3,953	863	62,974	1,105	62,456	155,826

Notes to the Financial Statements (cont'd)

4 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Computers \$'000	Furniture and fittings \$'000	Total \$'000
Company			
Cost			
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	1,018	11	1,029
Accumulated depreciation			
At 1 January 2009	1,018	3	1,021
Depreciation for the year	–	8	8
At 31 December 2009, 1 January 2010 and 31 December 2010	1,018	11	1,029
Carrying amounts			
At 1 January 2009	–	8	8
At 31 December 2009, 1 January 2010 and 31 December 2010	–	–	–

Leased assets

The Group leases motor vehicles under a number of finance lease agreements. The leased motor vehicles are the security for the lease obligations (see note 19). At 31 December 2010, the net carrying amount of such leased motor vehicles was nil (2009: \$107,000).

Lease prepayments that relate to payments made for land use rights have been transferred to property, plant and equipment during the year to better reflect the nature of the item. See note 13 for further details.

Estimation of residual values and useful lives of property, plant and equipment

The Group reviews the useful lives of the property, plant and equipment at the end of each reporting period in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets. Therefore future depreciation charges could be revised. The net book value of the Group's property, plant and equipment at 31 December 2010 was \$155,826,000 (2009: \$134,926,000) and the annual depreciation charge for the year ended 31 December 2010 was \$10,112,000 (2009: \$7,816,000).

Impairment loss

In 2010, due to the unfavourable market conditions, the Group has deferred the production and expected launch date of a new product in the industrial segment, which was originally expected to be available for sale in 2010. The Group has assessed the recoverable amount of the related production plant.

The recoverable amount was estimated based on its value in use, assuming that the production line would go live in 2012. Based on the assessment, the Group recognised an impairment loss of \$4,956,000 (2009: nil).

The estimated value in use was determined using a pre-tax discount rate of 9%.

The Group has also assessed the recoverable amount of a plant that has been loss-making since the previous financial year. The recoverable amount was estimated based on its value in use assuming that the plant will now be used to produce a product that will mainly be sold to companies within the Group. Based on the assessment, the Group recognised an impairment loss of \$2,901,000 (2009: nil).

The estimated value in use was determined using a pre-tax discount rate of 8.5%.

Notes to the Financial Statements (cont'd)

5 INTANGIBLE ASSETS

	Note	Goodwill \$'000	Intellectual property rights \$'000	Development costs \$'000	Licensing fees \$'000	Total \$'000
Group						
Cost						
At 1 January 2009		4,806	4,715	41,237	5,567	56,325
Additions		–	42	–	–	42
Additions – internally developed		–	–	9,269	–	9,269
Acquisition of non-controlling interest		1,715	–	–	–	1,715
Acquisitions through business combinations	29	7,667	–	13	3,277	10,957
Effect of movements in exchange rates		–	(2)	(28)	(128)	(158)
At 31 December 2009 and 1 January 2010		14,188	4,755	50,491	8,716	78,150
Additions		–	161	–	–	161
Additions – internally developed		–	–	5,377	–	5,377
Acquisitions through business combinations	29	8,118	–	–	–	8,118
Disposal of subsidiaries to a joint venture		102	–	–	–	102
Transfer to property, plant and equipment	4	–	–	(3,162)	–	(3,162)
Effect of movements in exchange rates		–	(56)	(63)	(317)	(436)
At 31 December 2010		22,408	4,860	52,643	8,399	88,310
Accumulated amortisation and impairment losses						
At 1 January 2009		–	764	7,102	1,000	8,866
Amortisation for the year		–	68	1,870	410	2,348
Impairment loss		1,525	61	2,288	1,459	5,333
Effect of movements in exchange rates		–	(3)	(29)	(109)	(141)
At 31 December 2009 and 1 January 2010		1,525	890	11,231	2,760	16,406
Amortisation for the year		–	118	4,808	438	5,364
Impairment loss		2,402	53	834	1,359	4,648
Effect of movements in exchange rates		–	(62)	(37)	(84)	(183)
At 31 December 2010		3,927	999	16,836	4,473	26,235
Carrying amounts						
At 1 January 2009		4,806	3,951	34,135	4,567	47,459
At 31 December 2009 and 1 January 2010		12,663	3,865	39,260	5,956	61,744
At 31 December 2010		18,481	3,861	35,807	3,926	62,075

Notes to the Financial Statements (cont'd)

5 INTANGIBLE ASSETS (cont'd)

	Intellectual property rights \$'000	Licensing fees \$'000	Total \$'000
Company			
Cost			
At 1 January 2009	1,764	137	1,901
Additions	15	–	15
At 31 December 2009, 1 January 2010 and 31 December 2010	1,779	137	1,916
Accumulated amortisation			
At 1 January 2009	61	14	75
Amortisation for the year	18	13	31
At 31 December 2009 and 1 January 2010	79	27	106
Amortisation for the year	17	14	31
At 31 December 2010	96	41	137
Carrying amounts			
At 1 January 2009	1,703	123	1,826
At 31 December 2009 and 1 January 2010	1,700	110	1,810
At 31 December 2010	1,683	96	1,779

Capitalisation of development costs

Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. During the year, \$3,162,000 (2009: nil) of laboratory equipment and leasehold improvement previously classified as development costs were reclassified to property, plant and equipment to better reflect the nature of the assets.

Recoverability of development costs

The recoverable amounts of the cash-generating units are estimated based on their value in use. When value in use calculations are undertaken, management estimates the expected future cash flows from the cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows. The recoverable amounts were estimated to be higher than the carrying amounts of the units, and no impairment was required, except for the amounts discussed below.

Impairment loss on development costs

In 2010, an impairment loss of \$834,000 (2009: \$2,288,000) was recognised in the income statement.

Estimation of useful lives of development costs

Significant judgement is required in estimating the useful lives of development projects, which are affected by various factors, such as technological developments.

Notes to the Financial Statements (cont'd)

5 INTANGIBLE ASSETS (cont'd)

Changes in estimates

During the year ended 31 December 2010, the Group revised its estimates for the useful lives of development costs from 10-15 years to 8 years as a result of a review performed by the Group over the period the Group would enjoy the expected benefits of the development costs, taking into consideration the pace of technological developments and industry practices.

The effect of these changes on amortisation expense recognised in the income statement in current and future periods are as follows:

	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000	2014 and beyond \$'000
Increase/(decrease) in amortisation expenses	1,350	2,144	2,111	2,105	(7,710)

Impairment testing for cash-generating units (CGUs) containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in note 28. The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	2010 \$'000	2009 \$'000
Singapore		
- Others	192	192
The Netherlands		
- Industrial	2,402	4,804
Kingdom of Saudi Arabia		
- Industrial	5,802	5,802
People's Republic of China		
- Industrial	1,865	1,865
- Municipal	8,220	–
	18,481	12,663

In 2010, following a management review of the business portfolio, an impairment loss of \$2,402,000 (2009: \$1,525,000) on the goodwill from the Netherlands Industrial CGU (2009: Singapore Industrial CGU) is recognised in the income statement.

The recoverable amounts of the CGUs were based on their values in use.

Values in use were determined by discounting the future cash flows generated from the continuing use of the units. Unless indicated otherwise, values in use in 2010 were determined similarly as in 2009. The calculations of the values in use were based on the following key assumptions:

- Cash flows were projected based on financial budgets approved by management covering a five-year period.
- The anticipated annual revenue growth included in the cash flow projections was 2% to 5% (2009: 2% to 5%) for the years 2011 to 2015 (2009: 2010 to 2014).
- A pre-tax discount rate of 12.5% (2009: 10%) was applied in determining the recoverable amounts of the CGUs and reflect specific risks relating to the relevant segments.

The values assigned to the key assumptions represent management's assessment of future trends in the industries and are based on both external sources and internal sources (historical data).

Notes to the Financial Statements (cont'd)

6 INTANGIBLE ASSETS ARISING FROM SERVICE CONCESSION ARRANGEMENTS

	Note	\$'000
Group		
Cost		
At 1 January 2009		19,326
Additions		9,696
Effect of movements in exchange rates		(443)
At 31 December 2009 and 1 January 2010		28,579
Acquisitions through business combinations	29	92,895
Transfer to joint venture		(1,329)
Additions		10,628
Effect of movements in exchange rates		(839)
At 31 December 2010		129,934
Accumulated amortisation and impairment losses		
At 1 January 2009		262
Amortisation for the year		450
Effect of movements in exchange rates		(4)
At 31 December 2009 and 1 January 2010		708
Amortisation for the year		(545)
Transfer to joint venture		2
Effect of movements in exchange rates		275
At 31 December 2010		440
Carrying amounts		
At 1 January 2009		19,064
At 31 December 2009 and 1 January 2010		27,871
At 31 December 2010		129,494

At 31 December 2010, the Group owns water plants in China, including water treatment plants ("WTPs") and wastewater treatment plants ("WWTPs"), through the special project companies ("SPCs") incorporated in China. The principal activities of the SPCs are development and operation of WTPs and WWTPs, as well as sales of treated and recycled water. Each of these SPCs has entered into service concession arrangements with the respective local municipals ("the grantor"), via either Transfer-Operate-Transfer ("TOT") or Build-Operate-Transfer ("BOT") arrangements.

Under the TOT arrangements, the rights of use of the water plants were transferred to the Group and the Group is responsible for any upgrading services to bring the water plants into proper working conditions. Under the BOT arrangements, the Group is responsible for the construction of the water plants. Upon completion of the construction, the Group is responsible for operating the water plants and sale of the treated and recycled water to the industrial or domestic customers. The concession periods range from 20 years to 30 years.

During the concession period, the Group received the right to charge the customers for the sale of water. Additionally, some of the service concession arrangements provide the Group a guaranteed minimum annual payment for the initial years of the concession period, ranging from 3 years to 30 years. These guaranteed minimum annual payments are recognised as financial receivables to the extent that the Group has contractual rights under the concession arrangements (see note 12). The financial receivables are measured on initial recognition at their fair value.

Intangible assets arising from service concession arrangements represent the right to operate the water plants and to sell the water to the customers.

At the end of the concession period, the water plants will be transferred to the grantor.

Notes to the Financial Statements (cont'd)

7 INVESTMENT PROPERTY

	Group	
	2010 \$'000	2009 \$'000
Cost		
At 1 January	3,348	3,348
Disposal	(3,348)	–
At 31 December	–	3,348
Accumulated depreciation		
At 1 January	1,232	1,104
Depreciation for the year	65	128
Disposal	(1,297)	–
At 31 December	–	1,232
Carrying amounts		
At 1 January	2,116	2,244
At 31 December	–	2,116

The fair value of the investment property, estimated by the directors of the Group, as at 31 December 2009 was approximately \$2,324,000.

The investment property is a warehouse, leased to an external tenant. The lease contains an initial non-cancellable period of one year. Subsequent renewals are negotiated with the lessee. No contingent rents were charged.

8 INVESTMENTS IN SUBSIDIARIES

	Company	
	2010 \$'000	2009 \$'000
Unquoted equity securities, at cost	109,649	109,649
Impairment losses	(14,338)	(3,238)
	95,311	106,411
Loans to subsidiaries	24,509	24,509
	119,820	130,920

The loans to subsidiaries are unsecured and interest-free, and settlement is neither planned nor likely to occur in the foreseeable future. As these balances are, in substance, part of the Company's net investments in the subsidiaries, they are stated at cost less impairment losses, if any.

Notes to the Financial Statements (cont'd)

8 INVESTMENTS IN SUBSIDIARIES (cont'd)

Details of major subsidiaries are as follows:

Name of subsidiary	Note	Country of incorporation	Ownership interest	
			2010 %	2009 %
Held by the Company				
Hydrochem (S) Pte Ltd		Singapore	100	100
Hyflux Membrane Manufacturing (S) Pte. Ltd.		Singapore	100	100
SinoSpring Utility Ltd		British Virgin Islands	100	100
Spring China Utility Ltd		British Virgin Islands	100	100
Held through subsidiaries				
Hydrochem Engineering (Shanghai) Co., Ltd		People's Republic of China	100	100
Hyflux CEPAration B.V.		The Netherlands	100	100
Hyflux Filtech (Shanghai) Co., Ltd		People's Republic of China	71	71
Hyflux Hi-tech Product (Yangzhou) Co., Ltd		People's Republic of China	100	100
Hyflux NewSpring Construction Engineering (Shanghai) Co., Ltd		People's Republic of China	100	100
Hyflux Unitech (Shanghai) Co., Ltd		People's Republic of China	71	71
Lube Oil Re-refining Co., LLC	29	Kingdom of Saudi Arabia	95	83
Sinolac (Singapore) Pte. Ltd.	29	Singapore	100	51
Hyflux Engineering (Shanghai) Co., Ltd		People's Republic of China	100	100

KPMG LLP, Singapore is the auditor of all significant Singapore-incorporated subsidiaries. The foreign-incorporated subsidiaries that are considered significant are Hyflux NewSpring Construction Engineering (Shanghai) Co., Ltd, and Lube Oil Re-refining Co., LLC. Their respective statutory auditors are Shanghai HDDY Certified Public Accountants Co., Ltd, People's Republic of China and Aldar Audit Bureau Abdullah Al Basri & Co, Kingdom of Saudi Arabia.

9 INVESTMENTS IN JOINT VENTURE

	Company	
	2010 \$'000	2009 \$'000
Unquoted equity securities, at cost	3,125	3,125

Notes to the Financial Statements (cont'd)

9 INVESTMENTS IN JOINT VENTURE (cont'd)

Details of the joint ventures are as follows:

Name of joint venture	Country of incorporation	Note	Ownership interest	
			2010 %	2009 %
Held by the Company				
Hyflux Marmon Development Pte. Ltd.	Singapore		50	50
Held through subsidiaries				
Galaxy NewSpring Pte. Ltd.	Singapore		50	–
H.J. NewSpring Limited	Hong Kong		50	50
Held through joint ventures				
Tianjin Dagang NewSpring Co., Ltd	People's Republic of China		50	50
Hyflux Water Trust	Singapore	29	50	–
Hyflux Utility WT (GCL) Limited	Hong Kong		50	–
Hyflux NewSpring (LiaoYang GongChangLing) Co., Ltd.	People's Republic of China		50	–
Hyflux Utility WT (MG) Limited	Hong Kong		50	–
Hyflux NewSpring Water Treatment (Mingguang) Co., Ltd.	People's Republic of China		50	–
Hyflux Utility (TY) Limited	Hong Kong		50	–
Hyflux NewSpring (Taoyuan) Co., Ltd.	People's Republic of China		50	–
Hyflux Utility (LP) Limited	Hong Kong		50	–
Hyflux NewSpring (Leping) Co., Ltd.	People's Republic of China		50	–

KPMG LLP, Singapore is the auditor of the Singapore-incorporated joint ventures. The foreign-incorporated joint venture that is considered significant is Tianjin Dagang NewSpring Desalination Co., Ltd and the statutory auditor is KPMG Huazhen, Shanghai, The People's Republic of China.

The summarised financial information of the joint ventures, which are adjusted for the percentage of ownership held by the Group, are as follows:

	2010 \$'000	2009 \$'000
Assets and liabilities		
Non-current assets	354,263	128,383
Current assets	53,879	23,049
Total assets	408,142	151,432
Non-current liabilities	(81,054)	(54,662)
Current liabilities	(109,159)	(28,504)
Total liabilities	(190,213)	(83,166)
Results		
Revenue	12,677	260
Expenses	(15,332)	(838)
Loss before income tax	(2,655)	(578)
Contingent liabilities in respect of bank guarantees for which the Group is liable	(59,938)	(54,662)

Notes to the Financial Statements (cont'd)

10 INVESTMENTS IN ASSOCIATES

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Quoted equity securities	–	55,386	–	–
Unquoted equity securities	75,032	47,268	13,320	12,955
	75,032	102,654	13,320	12,955
Fair value of investment in an associate for which there is a published price quotation	–	66,105	–	–

Unquoted equity securities of the Group with a carrying amount of \$55,834,000 (2009: \$36,575,000) have been pledged as collateral for banking facilities granted to the associates.

Details of major associates are as follows:

Name of associate	Note	Country of incorporation	Ownership interest	
			2010 %	2009 %
Held by the Company				
SingSpring Trust		Singapore	30.0	30.0
Held through subsidiaries				
Hyflux Water Trust	29	Singapore	–	31.7
Ningxia Hypow Bio-Technology Co., Ltd		People's Republic of China	25.0	25.0
Tlemcen Desalination Investment Company		France	30.0	30.0
Tahlyat Myah Magtaa SpA		Algeria	47.0	47.0

KPMG LLP, Singapore is the auditor of Hyflux Water Trust. SingSpring Trust is audited by Ernst & Young Singapore and Tahlyat Myah Magtaa SpA is audited by Cabinet Benmahsour Med El Bachir. An associated company is considered significant as defined under the Singapore Exchange Limited Listing Manual if the Group's share of its net tangible assets represents 20% or more of the Group's consolidated net tangible assets, or if the Group's share of its pre-tax profits accounts for 20% or more of the Group's consolidated pre-tax profits.

The summarised financial information of the associates, which are adjusted for the percentage of ownership held by the Group, are as follows:

	2010 \$'000	2009 \$'000
Assets and liabilities		
Total assets	251,491	296,047
Total liabilities	(191,549)	(168,604)
Results		
Revenue	36,972	29,873
Profit after income tax	1,959	2,634

Notes to the Financial Statements (cont'd)

11 OTHER INVESTMENTS

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Non-current				
Available-for-sale unquoted equity securities, at cost	–	99	–	–
Current				
Available-for-sale money market instrument	2,429	–	2,429	–

12 FINANCIAL RECEIVABLES

	Group	
	2010 \$'000	2009 \$'000
Non-current		
Financial receivables	226,087	155,630
Lease receivables	62	317
	226,149	155,947
Current		
Financial receivables	5,596	7,549
Lease receivables	255	269
	5,851	7,818
Total	232,000	163,765

The Group has receivables under finance leases as follows:

	Minimum lease payment receivables	Unearned finance income	Present value of minimum lease payment receivables	Minimum lease payment receivables	Unearned finance income	Present value of minimum lease payment receivables
	2010 \$'000	2010 \$'000	2010 \$'000	2009 \$'000	2009 \$'000	2009 \$'000
Group						
Within one year	329	74	255	329	60	269
Between one and five years	81	19	62	410	93	317
	410	93	317	739	153	586

Under the terms of the lease arrangements, no contingent rents are recognised and there are no unguaranteed residual values accruing to the Group.

The weighted average effective interest rate of the lease receivables at 31 December 2010 is 5.5% (2009: 5.5%) per annum.

Notes to the Financial Statements (cont'd)

13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Non-current				
Trade receivables	261	537	–	–
Lease prepayments	–	8,527	–	–
Amounts due from:				
- subsidiaries (non-trade)	–	–	16,924	18,296
- associates (non-trade)	15,555	26,248	–	–
	15,816	35,312	16,924	18,296
Current				
Trade receivables	53,976	26,971	–	9
Prepayments	1,865	3,180	245	571
Deposits	18,441	2,102	15,712	3
Advances to suppliers	11,278	26,172	–	–
Staff advances	312	477	–	–
Other receivables	13,958	10,406	–	634
Derivatives	754	–	754	–
Amounts due from:				
- subsidiaries (trade)	–	–	18,379	28,960
- subsidiaries (non-trade)	–	–	549,817	487,903
- joint ventures (trade)	30,806	27,301	16,927	–
- joint ventures (non-trade)	2,218	22	1,101	–
- associates (trade)	46,905	114,441	–	–
- associates (non-trade)	1,885	11,017	5,447	6,548
	182,398	222,089	608,382	524,628
Total	198,214	257,401	625,306	542,924

At 31 December 2010, trade receivables for the Group included a retention sum of \$7,090,000 (2009: \$5,139,000) relating to construction contracts in progress.

Included in current trade receivables of the Group are note receivables of \$6,531,000 (2009: \$2,516,000) relating to bank documents secured from customers for settlement of payment within the next six months.

Lease prepayments relate to payments made for land use rights and are charged to the income statement on a straight-line basis over the lease term ranging from 10 years to 30 years. The depreciation charge for the year ended 31 December 2010 of S\$791,000 (2009: \$446,000) is included in depreciation, amortisation and impairment in the income statement. The lease prepayments have been transferred to property, plant and equipment during the year to better reflect the nature of the item.

Outstanding balances with subsidiaries, joint ventures and associates are unsecured. There is no allowance for doubtful debts arising from the outstanding balances.

The non-current non-trade amounts due from subsidiaries are interest-free, have no fixed terms of repayment and are not expected to be repaid within the next 12 months. As these amounts are in substance, a part of the entity's net investment in the subsidiaries, they are stated at cost.

Notes to the Financial Statements (cont'd)

13 TRADE AND OTHER RECEIVABLES (cont'd)

The non-current non-trade amounts due from associates bear interest at rates of 6.84% (2009: 4.23% - 6.84%) per annum and are repayable between 2011 to 2014.

The current amounts due from subsidiaries, joint ventures and associates are interest-free and are repayable on demand.

The Group's and the Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables, are as set out in note 22.

14 DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Tax losses	25,857	13,332	–	–
Deductible temporary differences	18	18	–	–
	25,875	13,350	–	–

The tax losses and deductible temporary differences are subject to agreement by the tax authorities and compliance with tax regulations in the respective countries in which the Company and certain subsidiaries operate. The tax losses and deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Group				
Property, plant and equipment	–	–	791	667
Intangible assets	–	–	3,732	5,605
Intangible assets arising from service concession arrangements	(769)	–	21,117	–
Tax loss carry-forwards	(847)	(2,761)	–	–
Deferred tax (assets)/liabilities	(1,616)	(2,761)	25,640	6,272

Notes to the Financial Statements (cont'd)

14 DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

Movement in temporary differences during the year

	Balance as at 1 January 2009 \$'000	Recognised in profit or loss (note 26) \$'000	Exchange differences \$'000	Balance as at 31 December 2009 \$'000	Acquired in business combination \$'000	Recognised in profit or loss (note 26) \$'000	Exchange differences \$'000	Balance as at 31 December 2010 \$'000
Group								
Property, plant and equipment	712	(45)	–	667	–	124	–	791
Intangible assets	5,548	57	–	5,605	–	(1,873)	–	3,732
Intangible assets arising from service concession arrangements	–	–	–	–	20,348	–	–	20,348
Tax loss carry-forwards	(2,799)	23	15	(2,761)	–	1,606	308	(847)
	<u>3,461</u>	<u>35</u>	<u>15</u>	<u>3,511</u>	<u>20,348</u>	<u>(143)</u>	<u>308</u>	<u>24,024</u>
Company								
Property, plant and equipment	95	(95)	–	–	–	–	–	–
Intangible assets	64	(64)	–	–	–	–	–	–
	<u>159</u>	<u>(159)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

15 GROSS AMOUNTS DUE FOR CONTRACT WORK

	Group	
	2010 \$'000	2009 \$'000
Costs incurred and attributable profits	960,627	737,048
Progress billings	(706,158)	(617,054)
Gross amounts due for contract work	<u>254,469</u>	<u>119,994</u>

16 INVENTORIES

	Group	
	2010 \$'000	2009 \$'000
Raw materials and consumables	13,456	21,384
Work in progress	10,896	7,546
Finished goods	1,909	3,567
	<u>26,261</u>	<u>32,497</u>

During the year, the write-down of inventories to net realisable value amounted to \$1,412,000 (2009: \$863,000) for the Group. The write-down is included as part of other expenses in the income statement.

Notes to the Financial Statements (cont'd)

17 CASH AND CASH EQUIVALENTS

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash at bank and in hand	104,464	98,861	3,446	4,939
Fixed deposits with financial institutions	117,822	67,874	62,210	57,921
	222,286	166,735	65,656	62,860
Less: Deposits pledged	(204)	–		
Cash and cash equivalents in the cash flow statement	222,082	166,735		

18 TRADE AND OTHER PAYABLES

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Trade payables	169,519	219,109	–	–
Progress payments from customers	9,972	11,026	–	–
Derivatives	–	479	–	479
Accrued expenses	19,790	15,609	747	948
Other payables	8,637	7,974	3,826	3,655
Amounts due to:				
- subsidiaries (trade)	–	–	37	58
- subsidiaries (non-trade)	–	–	68,870	237,173
- associates (trade)	–	8,746	–	–
- associates (non-trade)	–	2,801	–	2,429
- joint ventures (trade)	1,834	28	–	–
- joint ventures (non-trade)	286	–	–	–
	210,038	265,772	73,480	244,742

Amounts due to subsidiaries, joint ventures and associates are unsecured, interest-free and repayable on demand.

The Group's and the Company's exposure to currency and liquidity risk related to trade and other payables are described in note 22.

Notes to the Financial Statements (cont'd)

19 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's and the Company's loans and borrowings, which are measured at amortised cost. For more information about the Group's and Company's exposures to interest rate, foreign currency and liquidity risk, see note 22.

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Non-current liabilities				
Unsecured bank loans	280,818	203,943	220,880	149,282
Loan from minority shareholders	–	3,097	–	–
Unsecured notes	222,788	147,951	222,788	147,951
Finance lease liabilities	–	27	–	–
	503,606	355,018	443,668	297,233
Current liabilities				
Secured bank loans	43,122	1,122	–	–
Unsecured bank loans	52,538	34,137	52,538	34,137
Unsecured notes	–	10,000	–	10,000
Finance lease liabilities	–	46	–	–
	95,660	45,305	52,538	44,137
Total	599,266	400,323	496,206	341,370

Secured bank loans of the Group at 31 December 2010 are secured by a joint venture's share mortgages of all its shares of China subsidiaries. Secured bank loans of the Group at 31 December 2009 were secured by a lien over the inventories and receivables of a subsidiary with carrying amounts of \$68,000 and \$40,000 respectively.

Unsecured bank loans of the Group totalling \$294,295,000 (2009: \$233,080,000) are guaranteed by the Company and certain subsidiaries of the Group.

Unsecured bank loans of the Company totalling \$234,357,000 (2009: \$178,419,000) are guaranteed by certain subsidiaries of the Group.

The loan from minority shareholders at 31 December 2009 was unsecured, interest-free, had no fixed terms of repayment and was not expected to be repaid within the next 12 months. The fair value of this balance was not determinable as the timing of the future cash flow cannot be reliably determined.

In 2008, the Company established a \$300 million unsecured multi-currency debt issuance programme pursuant to which the Company may, issue notes which bear currency, interest and maturity terms that vary with each series, as may be agreed between the Company and the dealers. As at 31 December 2010, \$224 million (2009: \$159 million) of unsecured fixed rate notes were in issue.

Notes to the Financial Statements (cont'd)

19 LOANS AND BORROWINGS (cont'd)

Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings are as follows:

	Currency	Nominal interest rate	Year of maturity	2010		2009	
				Face value \$'000	Carrying amount \$'000	Face value \$'000	Carrying amount \$'000
Group							
Unsecured bank loans	SGD	3.09%	2010	–	–	5,000	5,000
Unsecured bank loans	SGD	SIBOR + 0.93%	2010-2011	30,000	30,000	10,000	10,000
Unsecured bank loans	USD	LIBOR + 0.93%	2011	139,254	139,254	171,516	171,516
Unsecured bank loans	USD	COF* + 2.25%	2013	65,102	65,102	–	–
Unsecured bank loans	USD	COF* + 1.75%	2011	39,062	39,062	–	–
Unsecured bank loans	RMB	5.31% - 5.94%	2023	60,539	59,938	56,990	54,661
Secured bank loans	SGD	SOR + margin	2011	43,159	43,122	–	–
Secured bank loans	EURO	6.00%	2010	–	–	1,122	1,122
Unsecured notes	SGD	4.00% - 5.68%	2010-2015	223,500	222,788	158,500	157,951
Finance lease liabilities	SGD	6.54% - 6.80%	2010-2011	–	–	86	73
Total loans and borrowings				600,616	599,266	403,214	400,323
Company							
Unsecured bank loans	SGD	3.09%	2010	–	–	5,000	5,000
Unsecured bank loans	SGD	SIBOR + 0.93%	2010-2011	30,000	30,000	10,000	10,000
Unsecured bank loans	USD	LIBOR + 0.93%	2011	139,254	139,254	168,419	168,419
Unsecured bank loans	USD	COF* + 2.25%	2013	65,102	65,102	–	–
Unsecured bank loans	USD	COF* + 1.75%	2011	39,062	39,062	–	–
Unsecured notes	SGD	4.00% - 5.68%	2010-2015	223,500	222,788	158,500	157,951
Total loans and borrowings				496,918	496,206	341,919	341,370

COF* : The rate per annum determined by the bank to be the aggregate of:

- The rate at which the bank would be able to acquire funds in the Singapore interbank market (or from such sources as the bank may select for the purpose), and
- The rate determined by the bank to represent the bank's costs of compliance with liquidity, reserve or similar requirements imposed by any relevant authority (if any).

Finance lease liabilities

Finance lease liabilities are payable as follows:

	2010			2009		
	Future minimum lease payments \$'000	Interest \$'000	Principal \$'000	Future minimum lease payments \$'000	Interest \$'000	Principal \$'000
Group						
Within one year	–	–	–	54	8	46
Between one and five years	–	–	–	32	5	27
	–	–	–	86	13	73

Notes to the Financial Statements (cont'd)

20 CAPITAL AND RESERVES

Share capital

	Group and Company	
	2010	2009
	No. of shares	
	'000	'000
Ordinary shares		
On issue at 1 January	528,365	525,271
Issue of bonus shares	285,977	–
Exercise of share options	3,372	2,594
Exercise of warrants	40,217	1,000
Purchase of treasury shares	–	(500)
On issue at 31 December	857,931	528,365

Issuance of ordinary shares

43,589,000 (2009: 3,594,000) ordinary shares were issued as a result of the exercise of vested options and warrants arising from the 2001 share option programme granted to key management staff and warrant subscription agreements. Options and warrants were exercised at an average price of \$1.218[^] (2009: \$1.491[^]) per option and \$2.392* (2009: \$2.133*) per warrant respectively. All issued shares were fully paid.

[^] The share prices have been restated to adjust for the effect of bonus issuance in 2010 for comparative purposes.

* The share prices were not adjusted for the effect of bonus issuance during the year as all the warrants had been exercised prior to bonus issuance (see below).

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets. All issued shares are fully paid up.

Bonus issue

On 27 December 2010, 285,977,000 fully paid ordinary shares were issued to existing shareholders as bonus shares, in the proportion of one share for every two shares held.

Warrant

By a warrant subscription agreement dated 23 November 2004 supplemented by a supplemental warrant subscription agreement dated 25 April 2008 ("Agreements") entered into between the Company and Istithmar World PJSC (formerly known as Istithmar PJSC) ("Istithmar"), Istithmar was entitled to subscribe for 41,216,863 ordinary shares in the Company, subject to the terms and conditions of the Agreements and the warrant instrument. The exercise period was from April 2008 to April 2010.

The exercise price was the higher of (a) \$1.95 and (b) the lower of 70% of the volume-weighted average price for trades in the Company's shares transacted on the Singapore Exchange on the market day immediately preceding the exercise date or in the 30 calendar day period immediately preceding the exercise date. All the outstanding warrants have been exercised during the year and there are no outstanding warrants at 31 December 2010.

Reserve for own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. At 31 December 2010, the Group held 500,000 (2009: 500,000) of the Company's shares.

Notes to the Financial Statements (cont'd)

20 CAPITAL AND RESERVES (cont'd)

Capital reserve

The capital reserve comprises:

- (a) capital gain arising from the payment of the Group's subscription to the share capital of a subsidiary by a non-controlling interest; and
- (b) Statutory Reserve Fund ("SRF")

In accordance with the Foreign Enterprise Law in the People's Republic of China ("PRC"), the Group's subsidiaries in the PRC are required to appropriate earnings to a SRF. 10% of the statutory profits after tax as determined in accordance with the applicable PRC accounting standards and regulations are allocated to the SRF annually until the cumulative total of the SRF reaches 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The SRF is not available for dividend distribution to shareholders.

- (c) Difference between the consideration paid and net assets acquired in acquisition of non-controlling interest.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Hedging reserve

The hedging reserve comprises:

- (a) the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred; and
- (b) the Group's share of the hedging reserve of associates.

Employees' share option reserve

The employees' share option reserve represents the equity-settled share options granted to employees. This reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options.

Dividends

The following dividends were declared and paid by the Group and the Company:

For the year ended 31 December

	Group and Company	
	2010	2009
	\$'000	\$'000
Final tax-exempt dividend paid of 5.00 cents (2009: 3.43 cents) per share in respect of previous financial year	28,515	18,020
Interim tax-exempt dividend paid of 1.00 cent (2009: nil) per share in respect of current financial year	5,707	–
	34,222	18,020

Notes to the Financial Statements (cont'd)

20 CAPITAL AND RESERVES (cont'd)

Dividends (cont'd)

After the respective reporting dates, the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	Group and Company	
	2010	2009
	\$'000	\$'000
Final proposed tax-exempt dividend of 3.50 cents (2009: 5.00 cents) per share	30,027	26,418

21 SHARE-BASED PAYMENT

Description of the share-based payment arrangements

At 31 December 2010, the Group has the following share-based payment arrangements.

Share option scheme (equity-settled)

The Hyflux Employees' Share Option Scheme ("the Scheme") of the Company was approved and adopted by its members at an Extraordinary General Meeting held on 27 September 2001. The Scheme provides an opportunity for employees and directors of the Company and its subsidiaries, other than substantial shareholders of the Company, to participate in the equity of the Company.

On 24 November 2003, the members of the Company approved a modification to the Scheme which allowed Olivia Lum Ooi Lin, Group President & CEO, a substantial shareholder of the Company, to participate in the Scheme. The maximum entitlement of Olivia Lum Ooi Lin is 10% of the total number of shares which may be issued by the Company under the Scheme.

The Scheme is administered by the Remuneration Committee. It shall continue to be in force at the discretion of the Remuneration Committee for a period of ten years from 27 September 2001. However, the period may be extended with the approval of the members of the Company at a general meeting of the Company and of any relevant authorities which may then be required. The vesting of the options is conditional upon various factors including the directors and employees completing their years of service to the Group. Once these options have vested, the options are exercisable by an employee during a contractual option term of 10 years (5 years for a non-executive director) from the date of grant of that option. 20% of the options granted are exercisable after the director or employee completed each year of service from the date of the grant. All options are to be settled by physical delivery of shares.

Notes to the Financial Statements (cont'd)

21 SHARE-BASED PAYMENT (cont'd)

Disclosure of share option scheme

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2010 \$	Number of options 2010	Weighted average exercise price 2009 \$	Number of options 2009
Outstanding at 1 January	1.492	25,279,093	1.495 [^]	28,746,655
Forfeited during the year	1.657	(2,338,000)	1.587 [^]	(2,963,562)
Exercised during the year	1.218	(3,372,187)	1.007 [^]	(2,594,000)
Granted during the year	2.297	4,200,000	1.471 [^]	2,090,000
Bonus options	1.655	11,871,463	–	–
Outstanding at 31 December	1.656	35,640,369	1.492 [^]	25,279,093
Exercisable at 31 December	1.583	18,497,469	1.453 [^]	11,613,293

The options outstanding at 31 December 2010 have an exercise price in the range of \$0.179 to \$2.419 (2009: \$0.179[^] to \$2.419[^]) and a weighted average contractual life of 6.28 years (2009: 6.66 years).

The weighted average share price at the date of exercise for share options exercised in 2010 was \$1.485 (2009: \$1.401[^]) per share.

[^] The share prices have been restated to adjust for the effect of bonus issuance in 2010 for comparative purposes.

Inputs for measurement of grant date fair values

The grant date fair value of the share-based payment plans was measured based on the Black-Scholes standard option valuation model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

Fair value of share options and assumptions

Date of grant of options	26/02/2010	16/11/2010
Fair value at grant date	\$0.756	\$0.367
Share price at grant date	\$3.520*	\$3.260*
Exercise price	\$3.540*	\$3.286*
Expected volatility (weighted average volatility)	32%	19%
Option life (expected weighted average life)	100 days	100 days
Expected dividends	1.01%	1.73%
Risk-free interest rate (based on government bonds)	0.86%	0.83%

* The share prices were not adjusted for the effect of bonus issuance as they were granted prior to bonus issue.

Notes to the Financial Statements (cont'd)

22 FINANCIAL INSTRUMENTS

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	Group		Company	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Financial receivables	12	232,000	163,765	–	–
Trade receivables	13	54,237	27,508	–	9
Deposits	13	18,441	2,102	15,712	3
Advances to suppliers	13	11,278	26,172	–	–
Staff advances	13	312	477	–	–
Other receivables	13	13,958	10,406	–	634
Derivatives	13	754	–	754	–
Amounts due from:					
- subsidiaries (trade)	13	–	–	18,379	28,960
- subsidiaries (non-trade)	13	–	–	566,741	506,199
- joint ventures (trade)	13	30,806	27,301	16,927	–
- joint ventures (non-trade)	13	2,218	22	1,101	–
- associates (trade)	13	46,905	114,441	–	–
- associates (non-trade)	13	17,440	37,265	5,447	6,548
Loans and receivables		428,349	409,459	625,061	542,353
Cash and cash equivalents	17	222,286	166,735	65,656	62,860
Available-for-sale money market instrument	11	2,429	–	2,429	–
Recognised financial assets		653,064	576,194	693,146	605,213

The maximum exposure to credit risk for loans and receivables at the reporting date by type of counterparty was:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Municipal	325,518	360,472	–	–
Industrial	100,431	47,040	–	–
Subsidiaries	–	–	585,120	535,159
Joint ventures	–	–	18,028	–
Associates	–	–	5,447	6,548
Others	2,400	1,947	16,466	646
	428,349	409,459	625,061	542,353

Notes to the Financial Statements (cont'd)

22 FINANCIAL INSTRUMENTS (cont'd)

Credit risk (cont'd)

Impairment losses

The ageing of loans and receivables at the reporting date was:

	Gross 2010 \$'000	Impairment 2010 \$'000	Gross 2009 \$'000	Impairment 2009 \$'000
Group				
Not past due	410,152	–	399,403	–
Past due 0 to 60 days	7,007	–	566	–
Past due 61 to 120 days	4,501	–	1,881	–
More than 120 days	11,969	5,280	12,484	4,875
	433,629	5,280	414,334	4,875
Company				
Not past due	625,061	–	542,353	–

The movement in the allowance for impairment in respect of loans and receivables during the year was as follows:

	Group	
	2010 \$'000	2009 \$'000
At 1 January	4,875	5,044
Impairment loss recognised	2,411	2,820
Impairment loss written off	(828)	(1,918)
Impairment loss written back	(885)	(975)
Effect of movements in exchange rates	(293)	(96)
At 31 December	5,280	4,875

The impairment loss recognised and written back is included as part of other expenses in the income statement.

The Group and the Company believe that the unimpaired amounts that are past due are still collectible, based on historic payment behaviour and analysis of the customers' underlying credit ratings.

Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of the Group's loans and receivables not past due or past due by up to 120 days at 31 December 2010 as these loans and receivables are mainly due from governing bodies or agencies of the People's Republic of China, or customers that have a good payment record with the Group. Management believes that no impairment allowance is necessary on the Company's loans and receivables as at 31 December 2010.

Notes to the Financial Statements (cont'd)

22 FINANCIAL INSTRUMENTS (cont'd)

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount	Cash flows			More than 5 years
		Contractual cash flows	Within 1 year	Between 1 and 5 years	
	\$'000	\$'000	\$'000	\$'000	\$'000
Group					
2010					
Non-derivative financial liabilities					
Variable interest rate loans	376,478	(423,820)	(121,189)	(102,635)	(199,996)
Fixed interest rate notes	222,788	(257,049)	(11,051)	(245,998)	–
Finance lease liabilities	–	–	–	–	–
Trade and other payables*	210,038	(210,038)	(210,038)	–	–
	809,304	(890,907)	(342,278)	(348,633)	(199,996)
Derivative financial liabilities					
Forward exchange contracts					
- Outflow	–	–	–	–	–
- Inflow	–	–	–	–	–
2009					
Non-derivative financial liabilities					
Variable interest rate loans	242,299	(277,038)	(41,148)	(175,598)	(60,292)
Fixed interest rate notes	157,951	(186,056)	(17,966)	(168,090)	–
Finance lease liabilities	73	(86)	(54)	(32)	–
Trade and other payables*	265,293	(265,293)	(265,293)	–	–
	665,616	(728,473)	(324,461)	(343,720)	(60,292)
Derivative financial liabilities					
Forward exchange contracts					
- Outflow	484	(40,182)	(40,182)	–	–
- Inflow	(5)	39,703	39,703	–	–

* Excludes derivatives (shown separately).

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Notes to the Financial Statements (cont'd)

22 FINANCIAL INSTRUMENTS (cont'd)

Currency risk

Exposure to currency risk

The Group's and Company's exposure to foreign currency risk is as follows based on notional amounts:

	31 December 2010 US dollars \$'000	31 December 2009 US dollars \$'000
Group		
Trade and other receivables	362,798	214,861
Cash and cash equivalents	82,080	92,912
Loans and borrowings	(243,418)	(171,516)
Trade and other payables	(132,760)	(97,139)
	<u>68,700</u>	<u>39,118</u>
Company		
Trade and other receivables	294,960	256,244
Cash and cash equivalents	40,183	58,437
Loans and borrowings	(243,418)	(168,419)
Trade and other payables	(49,018)	(180,820)
	<u>42,707</u>	<u>(34,558)</u>

Sensitivity analysis

A 10% strengthening of the Singapore dollar, as indicated below, against the US dollars at 31 December would have increased/ (decreased) equity and profit before income tax in the income statement by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below:

	Group		Company	
	Profit before income tax \$'000	Equity \$'000	Profit before income tax \$'000	Equity \$'000
31 December 2010				
US dollars (10% strengthening)	(6,870)	-	(4,271)	-
31 December 2009				
US dollars (10% strengthening)	(13,153)	9,241	3,456	-

A weakening of the Singapore dollar against the above currency at 31 December would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Notes to the Financial Statements (cont'd)

22 FINANCIAL INSTRUMENTS (cont'd)

Interest rate risk

Profile

At the reporting date, the interest rate profile of the interest-bearing financial instruments was:

	Group		Company	
	Carrying amount		Carrying amount	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Fixed rate instruments				
Finance lease liabilities	–	(73)	–	–
Unsecured notes	(222,788)	(157,951)	(222,788)	(157,951)
	(222,788)	(158,024)	(222,788)	(157,951)
Variable rate instruments				
Variable interest rate loans	(376,478)	(242,299)	(273,418)	(183,419)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 75 basis points in interest rates at the reporting date would have increased/ (decreased) profit before income tax in the income statement by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

Group	Profit before income tax	
	75 bp increase	75 bp decrease
	\$'000	\$'000
31 December 2010		
Variable rate instruments	(2,824)	2,824
31 December 2009		
Variable rate instruments	(1,817)	1,817
Company		
31 December 2010		
Variable rate instruments	(2,051)	2,051
31 December 2009		
Variable rate instruments	(1,376)	1,376

Notes to the Financial Statements (cont'd)

22 FINANCIAL INSTRUMENTS (cont'd)

Fair values

Fair values versus carrying amounts

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2010 and 2009 except as follows:

	Note	31 December 2010		31 December 2009	
		Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Group					
Assets carried at amortised cost					
Amounts due from associates (non-trade)	13	15,555	15,692	26,248	26,322
Liabilities carried at amortised cost					
Unsecured notes	19	222,788	(232,801)	(157,951)	(168,122)
Company					
Liabilities carried at amortised cost					
Unsecured notes	19	222,788	(232,801)	(157,951)	(168,122)

The basis for determining fair values is described in note 30.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and are as follows:

	Group	
	2010	2009
Amounts due from associates (non-trade)	6.0%	6.0%
Unsecured notes	3.0%	3.0%

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Group and Company				
31 December 2010				
Derivatives	–	754	–	754
Available-for-sale money market instrument	–	2,429	–	2,429
	–	3,183	–	3,183
31 December 2009				
Derivatives	–	(479)	–	(479)

Notes to the Financial Statements (cont'd)

23 REVENUE

	Group	
	2010	2009
	\$'000	\$'000
Construction revenue	513,127	488,055
Operating and maintenance income	32,816	21,848
Sale of goods	17,780	7,632
Finance income	3,697	5,684
Finance lease income	378	363
Others	1,939	1,232
	569,737	524,814

24 FINANCE COSTS

	Group	
	2010	2009
	\$'000	\$'000
Interest expense:		
- bank loans	16,756	9,241
- finance lease liabilities	4	18
	16,760	9,259

25 PROFIT BEFORE INCOME TAX

The following items have been included in arriving at profit before income tax:

	Group	
	2010	2009
	\$'000	\$'000
Net foreign currency exchange loss	16,355	2,110
Rental income from investment property	(323)	(329)
Interest income:		
- fixed deposits with financial institutions	(325)	(426)
- associates	(2,800)	(2,832)
Fair value (gain)/loss on derivative financial instruments	(754)	479
Gain on sale of investment property	(1,186)	-
Remeasurement to fair value of an associate to joint venture	(22,787)	-
Loss on sale of property, plant and equipment	380	1,392
Operating expenses arising from rental of investment property	88	79
Impairment of investments	264	2,058
Impairment of trade and other receivables	1,526	1,845
Gain on sale of other investments	-	(44)
Operating lease expense	6,023	4,715
Professional fees paid to firms in which a director is member	3	26
Contribution to defined contribution plans, included in staff costs	5,669	4,323
Employees' share option expense, included in staff costs	1,829	3,809
Research expense	2,166	990
Government grant under Jobs Credit Scheme	(260)	(1,360)

Notes to the Financial Statements (cont'd)

26 INCOME TAX EXPENSE

	Group	
	2010	2009
	\$'000	\$'000
Current tax expense		
Current year	11,561	9,153
Under/(over)provided in prior years	170	(507)
	11,731	8,646
Deferred tax expense		
Origination and reversal of temporary differences	(314)	359
Reduction in tax rate	–	(334)
Underprovided in prior years	171	10
	(143)	35
Income tax expense	11,588	8,681
Reconciliation of effective tax rate		
Profit before income tax	100,473	82,972
Income tax using Singapore tax rate of 17%	17,080	14,105
Effect of different tax rates in foreign jurisdictions	773	1,051
Reduction in tax rate	–	(334)
Tax exempt income	(2,650)	(3,750)
Non-deductible expenses	2,388	3,416
Effect of partial tax exemption and tax reliefs	(6,344)	(5,310)
Under/(over)provided in prior years	341	(497)
	11,588	8,681

A subsidiary was granted Pioneer Status in Singapore in respect of the production and sale of membrane systems. Accordingly, the subsidiary enjoys tax exemption on income arising from sale of membrane systems subject to the terms and conditions of the Pioneer Status.

Another subsidiary was awarded a 7-year Development and Expansion Incentive. Qualifying income earned during this period is taxed at a concessionary rate of 5%.

In accordance with the "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises", certain subsidiaries are entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. A new Corporate Income Tax Law which took effect on 1 January 2008 stated that subsidiaries in the People's Republic of China which have not utilised their five-year tax concessions under the old tax law were required to utilise their first year of tax concession commencing from 2008. In addition, one of the subsidiaries has High-Technology Status which is subject to a tax rate of 15%.

Subsidiaries incorporated in the British Virgin Islands ("BVI") are exempt from income taxes in BVI in accordance with local tax laws.

Notes to the Financial Statements (cont'd)

27 EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 31 December 2010 is based on the profit attributable to ordinary shareholders of \$88,510,000 (2009: \$75,036,000), and a weighted average number of ordinary shares outstanding of 841,682,000 (2009: 789,259,000[^]), calculated as follows:

Weighted average number of ordinary shares

	Note	Group	
		2010 '000	2009 '000
Issued ordinary shares at 1 January	20	528,365	525,271
Effect of own shares held		–	(208)
Effects of share options and warrants exercised		32,756	1,110
Effect of bonus issue		280,561	263,086 [^]
Weighted average number of ordinary shares at 31 December		841,682	789,259 [^]

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2010 was based on profit attributable to ordinary shareholders of \$88,510,000 (2009: \$75,036,000), and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 865,351,000 (2009: 803,212,000[^]), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Group	
	2010 '000	2009 '000
Weighted average number of ordinary shares (basic)	841,682	789,259 [^]
Effect of share options on issue	23,669	3,289 [^]
Effect of warrants on issue	–	10,664 [^]
Weighted average number of ordinary shares (diluted) at 31 December	865,351	803,212 [^]

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

[^] For comparative purposes, the number of ordinary shares as at 31 December 2009 was adjusted to include issue of one bonus share for every two existing ordinary shares in the calculation of basic earnings per share and diluted earnings per share.

28 SEGMENT REPORTING

(a) Operating segments

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO (the chief operating decision maker) reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- *Municipal.* Supplier of comprehensive range of innovative water and fluid treatment solutions to municipalities and governments, including commissioning, operation and maintenance of a wide range of water treatment and liquid separation plants on a turnkey or Design-Build-Own-Operate-Transfer arrangements.

Notes to the Financial Statements (cont'd)

28 SEGMENT REPORTING (cont'd)

(a) Operating segments (cont'd)

- *Industrial.* Liquid separation applications for the manufacturing sector such as the pharmaceutical, biotechnology, food processing and petrochemical oil-related industries.

Other operations include emerging segments such as the renewable resources management business. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2010 or 2009.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

(b) Geographical segments

The Group operates in 3 principal geographical areas: Singapore, China and Middle East and North Africa. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Information about reportable segments

	Municipal		Industrial		All other segments		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
External revenues	511,180	469,832	55,144	54,394	3,413	588	569,737	524,814
Interest revenue	–	1,854	1,203	–	175	–	1,378	1,854
Interest expense	(3,783)	–	(16)	(359)	115	–	(3,684)	(359)
Depreciation, amortisation and impairment	(3,378)	(4,342)	(14,967)	(3,288)	(2,593)	(3,713)	(20,938)	(11,343)
Reportable segment profit/(loss) before income tax	132,687	103,753	(11,355)	(7,431)	(3,178)	(4,685)	118,154	91,637
Share of profit/(loss) of associates, net of income tax	1,774	3,262	(1,103)	(236)	1,288	(392)	1,959	2,634
Reportable segment assets	900,623	595,778	249,208	241,998	14,015	14,903	1,163,846	852,679
Investments in associates	66,549	93,645	3,445	4,911	5,038	4,098	75,032	102,654
Capital expenditure	125,171	3,635	2,673	74,548	318	12,970	128,162	91,153
Reportable segment liabilities	261,439	280,163	23,778	37,105	63,771	8,379	348,988	325,647

Notes to the Financial Statements (cont'd)

28 SEGMENT REPORTING (cont'd)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

	2010 \$'000	2009 \$'000
Revenues		
Total revenue for reportable segments	566,324	524,226
Other revenue	3,413	588
Consolidated revenue	569,737	524,814
Profit or loss		
Total profit or loss for reportable segments	121,332	96,322
Other profit or loss	(3,178)	(4,685)
	118,154	91,637
Unallocated amounts:		
- Other corporate expenses	(19,640)	(11,299)
Share of profit of associates, net of income tax	1,959	2,634
Consolidated profit before income tax	100,473	82,972
Assets		
Total assets for reportable segments	1,149,831	837,776
Other assets	14,015	14,903
Investments in associates	75,032	102,654
Other unallocated amounts	120,824	117,230
Consolidated total assets	1,359,702	1,072,563
Liabilities		
Total liabilities for reportable segments	285,217	317,268
Other liabilities	63,771	8,379
Other unallocated amounts	496,207	353,514
Consolidated total liabilities	845,195	679,161

Other material items in 2010

	Reportable segment totals \$'000	Adjustments \$'000	Consolidated totals \$'000
Interest revenue	1,203	1,922*	3,125
Interest expense	(3,799)	(12,961)*	(16,760)
Capital expenditure	127,844	21,408^	149,252
Depreciation, amortisation and impairment	(18,345)	(9,156)^	(27,501)

Notes to the Financial Statements (cont'd)

28 SEGMENT REPORTING (cont'd)

Other material items in 2009

	Reportable segment totals \$'000	Adjustments \$'000	Consolidated totals \$'000
Interest revenue	1,854	1,404*	3,258
Interest expense	(359)	(8,900)*	(9,259)
Capital expenditure	78,183	24,954^	103,137
Depreciation, amortisation and impairment	(7,630)	(8,891)^	(16,521)

* This represents interest revenue and interest expense that are not allocated to segments, as this activity is driven by Group Treasury, which manages the cash position of the Group.

^ This represents capital expenditure and its related depreciation, amortisation and impairment incurred as a result of the overall business strategy adopted by the Group. The allocation of these resources to the various reportable segments cannot be determined.

Geographical information

31 December 2010

	Revenues \$'000	Non-current assets \$'000
Middle East and North Africa	343,810	60,247
People's Republic of China	150,797	488,263
Singapore	75,130	117,498
	569,737	666,008

31 December 2009

	Revenues \$'000	Non-current assets \$'000
Middle East and North Africa	330,523	62,404
People's Republic of China	181,327	382,308
Singapore	12,964	78,718
	524,814	523,430

Notes to the Financial Statements (cont'd)

29 ACQUISITIONS OF A JOINT VENTURE AND NON-CONTROLLING INTERESTS

Business combination for the year ended 31 December 2010

In December 2010, the Group acquired additional 18.3% interest in Hyflux Water Trust ("HWT"), increasing its ownership from 31.7% to 50%. The investment was reclassified from an associate to a joint venture subsequent to the additional investment.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
	\$'000	\$'000	\$'000
Property, plant and equipment	7,270	–	7,270
Intangible assets	69,602	23,293	92,895
Financial receivables	78,895	–	78,895
Deferred tax assets	445	324	769
Cash and cash equivalents	15,582	–	15,582
Trade and other receivables	8,921	–	8,921
Trade and other payables	(24,918)	–	(24,918)
Tax payable	(366)	–	(366)
Loans and borrowings	(43,122)	–	(43,122)
Deferred tax liabilities	(9,522)	(8,534)	(18,056)
	102,787	15,083	117,870
Fair value of the Group's existing interest of 31.7% on acquisition date			(74,701)
Goodwill on acquisition			8,118
Cash consideration not yet paid			(8,493)
Consideration paid, satisfied in cash			42,794
Cash acquired			(15,582)
Net cash outflow			27,212

Pre-acquisition carrying amounts were determined based on applicable FRS immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values.

The gain arising from the remeasurement to fair value of the Group's existing interest in the associate represents the realisation of revenue from previous sales of plants under service concession arrangements previously not recognised as construction revenue under the service concession arrangements. As such, the gain has been recorded as part of revenue, consistent with the Group's accounting policy at note 3.14.

The goodwill recognised on the acquisition is attributable mainly to the future profitability and synergies related to customers' contracts portfolio.

If the acquisition had occurred on 1 January 2010, management estimates that consolidated revenue would have been \$587,237,000 and consolidated profit for the year would have been \$89,580,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

Notes to the Financial Statements (cont'd)

29 ACQUISITIONS OF A JOINT VENTURE AND NON-CONTROLLING INTERESTS (cont'd)

Acquisition of non-controlling interest

In February 2010, the Group acquired an additional 12% interest in Lube Oil Re-refining Co., LLC ("Lubrec"), increasing its ownership from 83% to 95%.

In October 2010, the Group acquired an additional 49% interest in Sinolac (Singapore) Pte. Ltd. ("Sinolac"), increasing its ownership from 51% to 100%.

The following summarises the effect of changes in the Company's ownership interests in Lubrec and Sinolac:

	Lubrec \$'000	Sinolac \$'000
Company's ownership at beginning of the year	12,520	15,318
Effect of increase in Company's ownership interest	1,735	13,662
Share of comprehensive income	(4,025)	(1,646)
Company's ownership at the end of the year	10,230	27,334

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions.

Business combinations for the year ended 31 December 2009

On 9 July 2009, the Group acquired an additional 41.5% interest in Lube Oil Re-refining Co., LLC, increasing its ownership from 41.5% to 83.0%.

On 6 October 2009, the Group acquired an additional 23.5% interest in Sinolac (Singapore) Pte. Ltd., increasing its ownership from 27.5% to 51.0%. Out of the 23.5% additional interest acquired, 1.0% was acquired from a director of the Company at a consideration of \$371,000.

The companies became subsidiaries of the Group after the acquisitions and the investments were reclassified from associates to subsidiaries accordingly. The companies' contributions to the Group's consolidated net profit for the year ended 31 December 2009 were not significant. The Group's revenue and net profit for the year ended 31 December 2009 would not be significantly different from those recognised in the consolidated income statement had the acquisitions occurred on 1 January 2009.

Notes to the Financial Statements (cont'd)

29 ACQUISITIONS OF A JOINT VENTURE AND NON-CONTROLLING INTERESTS (cont'd)

Business combinations for the year ended 31 December 2009 (cont'd)

The acquisitions had the following effect on the Group's assets and liabilities on acquisition date:

	Pre-acquisition carrying amounts \$'000	Fair value adjustments \$'000	Recognised values on acquisition \$'000
Property, plant and equipment	80,460	1,482	81,942
Intangible assets	3,290	–	3,290
Inventories	1,871	–	1,871
Trade and other receivables	8,684	–	8,684
Cash and cash equivalents	1,307	–	1,307
Loans and borrowings	(38,377)	–	(38,377)
Trade and other payables	(11,056)	–	(11,056)
Net identifiable assets and liabilities	46,179	1,482	47,661
Non-controlling interests			(18,954)
Goodwill on acquisition			7,667
Amount previously accounted for as investments in associates			(15,102)
Consideration paid, satisfied in cash			21,272
Cash acquired			(1,307)
Net cash outflow			19,965

30 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

Intangible assets

The fair value of intangible assets received as consideration for providing construction services in a service concession arrangement is estimated by reference to the fair value of the construction services provided. The fair value of the construction services provided is calculated as the estimated total cost plus a profit margin which the Group considers as a reasonable margin. When the Group receives an intangible asset and a financial asset as consideration for providing construction services in a service concession arrangement, the Group estimates the fair value of intangible assets as the difference between the fair value of the construction services provided and the fair value of the financial asset received.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Notes to the Financial Statements (cont'd)

30 DETERMINATION OF FAIR VALUES (cont'd)

Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Investments in equity securities

It is not practicable to reliably estimate the fair value of available-for-sale unquoted investments due to the lack of quoted market prices in an active market, significant range of reasonable fair value estimates, and the inability to reasonably assess the probabilities of the various estimates.

Trade and other receivables

The fair value of trade and other receivables, including service concession receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

Intra-group financial guarantees

The value of financial guarantees provided by the Company to its subsidiaries is determined by reference to the difference in the interest rates, by comparing the actual rates charged by the bank with these guarantees made available, with the estimated rates that the banks would have charged had these guarantees not been made available.

Share-based payment transactions

The fair value of the employees' share options is measured using the Black-Scholes standard option valuation model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the grants are not taken into account in determining the fair value of the options.

31 FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Notes to the Financial Statements (cont'd)

31 FINANCIAL RISK MANAGEMENT (cont'd)

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes regular reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

The Group has a credit policy in place which establishes credit limits for all customers and monitors their balances on an ongoing basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Guarantees

The Group's policy is to provide financial guarantees only to subsidiaries and joint ventures.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains lines of credit that can be drawn down to meet short-term financing needs.

Notes to the Financial Statements (cont'd)

31 FINANCIAL RISK MANAGEMENT (cont'd)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Capital management

The primary objective of the Group's capital management is to support the Group's growth strategy and maximise shareholder value with the optimal capital structure.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital. The Group includes within net debt, loans and borrowings, less cash and cash equivalents. Total equity of the Group represents capital for the Group.

	Group	
	2010	2009
	\$'000	\$'000
Loans and borrowings	599,266	400,323
Less: Cash and cash equivalents	(222,286)	(166,735)
Net debt	376,980	233,588
Total equity	514,507	393,402
Gearing ratio	73%	59%

From time to time, the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's share option programme. Buy and sell decisions are made on a specific transaction basis by the Risk Management Committee; the Group does not have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the year.

The Group and its subsidiaries are not subject to externally imposed capital requirements other than the following:

- (i) Certain subsidiaries of the Group are required by the Foreign Enterprise Law of the People's Republic of China ("PRC") to contribute to and maintain a non-distributable Statutory Reserve Fund ("SRF") whose utilisation is subject to approval by the relevant PRC authorities (see note 20).
- (ii) The Company is required under a financial covenant clause to maintain a consolidated total tangible net worth for the Group of not less than \$160 million.

These externally imposed capital requirements have been complied with by the Company and the relevant subsidiaries for the financial year ended 31 December 2010.

Notes to the Financial Statements (cont'd)

32 OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2010	2009
	\$'000	\$'000
Within one year	4,340	4,047
Between one and five years	16,579	15,538
More than five years	59,677	52,327
	80,596	71,912

The Group has various operating lease agreements for office equipment, offices and rental of land. Most leases contain renewable options and some leases contain escalation clauses. The lease terms typically do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing.

Leases as lessor

The Group leases out its investment property held under operating leases (see note 7). The future minimum lease payments under non-cancellable leases are as follows:

	Group	
	2010	2009
	\$'000	\$'000
Within one year	–	336

33 CAPITAL COMMITMENTS

- (i) At 31 December 2010, the Group has outstanding commitments in respect of uncalled capital of approximately US\$33,300,000 (2009: US\$40,500,000) in an associate.
- (ii) At 31 December 2010, the Group has outstanding capital commitments of \$49,462,000 (2009: \$6,252,000).

34 CONTINGENCIES

The Company has given formal undertakings to provide financial support to certain subsidiaries with deficit in shareholders' equity for at least the next twelve months from the end of the reporting period.

The Group has potential contingencies arising from the delayed completion of a water plant construction project. However, the Group has a counter-claim against the customer for the additional costs incurred as a result of the customer's prolongation of the project, as well as a claim for additional mobilisation fees due to the delay in the handing over of the water plant by the customer. At 31 December 2010, the Group is still in negotiation with the customer and currently, no contingent liabilities or assets have been recognised by the Group.

Notes to the Financial Statements (cont'd)

35 RELATED PARTIES

Transactions with key management personnel

Key management personnel

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group. The directors and management committee of the Company and the Group are considered as key management personnel of the Company and the Group.

Key management personnel compensation comprised:

	Group	
	2010	2009
	\$'000	\$'000
Directors' fees	490	577
Short-term employee benefits	4,678	3,393
Share-based payments	761	690
	5,929	4,660
Comprise amounts paid/payable to:		
- Directors of the Company	2,277	1,764
- Other key management personnel	3,652	2,896
	5,929	4,660

The directors of the Company also participate in the Hyflux Employees' Share Option Scheme. Details of options granted to the directors under the Scheme are described in note 21.

Other related party transactions

Other than as disclosed elsewhere in the financial statements, transactions carried out in the normal course of business on terms agreed with related parties are as follows:

	Group	
	2010	2009
	\$'000	\$'000
Director		
Acquisition of non-controlling interest	774	371
Joint venture		
Rental income	36	27
Associates		
Revenue from construction contracts	293,754	335,631
Revenue from maintenance contracts	30,594	17,731
Management fee income	883	885

Notes to the Financial Statements (cont'd)

36 SUBSEQUENT EVENTS

On 19 January 2011, the Group has issued 5-year fixed rate notes with principal amount of \$55 million ("the notes") under the \$300 million unsecured multi-currency debt issuance programme. The notes carry a coupon rate of 3.89% per annum and will mature in January 2016. The notes will be used to fund the refinancing of existing banking facilities as well as certain construction projects.

On 21 January 2011, the Group has successfully completed the book-build of its new 5-year US dollar syndicated loan facility (the "new facility"). The new facility replaces the existing US\$138,000,000 facility that will be maturing in August 2011. However, in 2010, the Group has obtained unconditional underwriting from the lead arrangers and bookrunners of the new facility.

On 7 March 2011, the Group has been named as the preferred bidder by PUB, Singapore's national water agency, to design, build, own and operate a seawater desalination plant for a concession period of 25 years. The project includes the construction of a power plant to the desalination plant, and the excess electricity will be sold to the power grid. Total project costs of the desalination plant and power plant is \$890,000,000. The project is expected to commence operation by 2013.

**UNAUDITED FINANCIAL STATEMENTS FOR THE
FIRST QUARTER ENDED 31 MARCH 2011**

The information in this Appendix V has been reproduced from the announcement on 5 May 2011 of Hyflux Ltd and its subsidiaries for the first quarter ended 31 March 2011 and has not been specifically prepared for inclusion in this Information Memorandum.



HYFLUX LTD
Registration number : 200002722Z

Unaudited Financial Statements For The First Quarter Ended 31 March 2011

1 (a)(i) An income statement (for the Group) together with a comparative statement for the corresponding period for the immediately preceding financial year.

**CONSOLIDATED INCOME STATEMENT
FOR THE FIRST QUARTER ENDED 31 MARCH 2011**

	<u>Group</u>		Change %
	<u>Quarter ended 31 Mar</u>		
	2011 S\$'000	2010 S\$'000	
Revenue	86,814	101,340	(14)
Other income	1,216	1,250	(3)
Changes in inventories of finished goods and work-in-progress	441	(569)	NM
Raw materials and consumables used and subcontractors' cost	(43,345)	(59,275)	(27)
Staff expenses	(11,731)	(13,073)	(10)
Depreciation and amortisation	(4,939)	(3,353)	47
Other expenses	(16,770)	(15,208)	10
Finance costs	(5,542)	(3,464)	60
Share of profit/(loss) of associates, net of income tax	1,791	(685)	NM
Profit before income tax	<u>7,935</u>	<u>6,963</u>	14
Income tax expense	(586)	(1,095)	(46)
Profit for the period	<u><u>7,349</u></u>	<u><u>5,868</u></u>	25
Profit attributable to:			
Owners of the Company	7,380	6,401	15
Non-controlling interests	(31)	(533)	(94)
	<u><u>7,349</u></u>	<u><u>5,868</u></u>	25

NM: Not meaningful

1 (a)(ii) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FIRST QUARTER ENDED 31 MARCH 2011

	<u>Group</u>		Change
	<u>Quarter ended 31 Mar</u>		
	2011	2010	%
	S\$'000	S\$'000	
Profit for the period	7,349	5,868	25
Other comprehensive income for the period			
Foreign currency translation differences for foreign operations	(4,707)	(1,557)	NM
Share of hedging reserve of associates	220	(83)	NM
Net change in fair value of cash flow hedges transferred to profit or loss	-	431	NM
Effective portion of changes in fair value of cash flow hedges	-	71	NM
Share of statutory reserve of associates	-	216	NM
Other comprehensive loss for the period, net of tax	<u>(4,487)</u>	<u>(922)</u>	NM
Total comprehensive income for the period	<u>2,862</u>	<u>4,946</u>	(42)
Total comprehensive income attributable to:			
Owners of the Company	3,084	5,459	(43)
Non-controlling interests	<u>(222)</u>	<u>(513)</u>	(57)
	<u>2,862</u>	<u>4,946</u>	(42)

NM: Not meaningful

NOTES TO CONSOLIDATED INCOME STATEMENT

1 (a)(iii) Profit before tax of the Group is arrived at after (charging)/crediting the following: -

	<u>Group</u>		Change
	<u>Quarter ended 31 Mar</u>		
	2011	2010	%
	S\$'000	S\$'000	
Fair value (loss)/gain on derivative financial instruments	(646)	121	NM
Finance income	687	662	4
Net foreign exchange loss	(1,048)	(697)	50
Write back of trade and other receivables	72	156	(54)
Gain/(loss) on sale of property, plant and equipment	<u>2</u>	<u>(394)</u>	NM

NM: Not meaningful

1(b)(i) A balance sheet (for the issuer and Group), together with a comparative statement as at the end of the immediately preceding financial year.

BALANCE SHEETS AS AT 31 MARCH 2011

	<u>Group</u>		<u>Company</u>	
	31 Mar 11	31 Dec 10	31 Mar 11	31 Dec 10
	S\$'000	S\$'000	S\$'000	S\$'000
<u>NON-CURRENT ASSETS</u>				
Property, plant and equipment	154,373	155,826	-	-
Intangible assets	61,983	62,075	1,771	1,779
Intangible assets arising from service concession arrangements	129,671	129,494	-	-
Investments in subsidiaries	-	-	119,820	119,820
Investments in joint venture	-	-	3,125	3,125
Investments in associates	76,833	75,032	13,413	13,320
Financial receivables	234,492	226,149	-	-
Trade and other receivables	15,374	15,816	16,442	16,924
Deferred tax assets	1,136	1,616	-	-
	<u>673,862</u>	<u>666,008</u>	<u>154,571</u>	<u>154,968</u>
<u>CURRENT ASSETS</u>				
Asset classified as held for sale	3,171	-	-	-
Gross amounts due for contract work	266,363	254,469	-	-
Inventories	26,928	26,261	-	-
Financial receivables	5,067	5,851	-	-
Trade and other receivables, including derivatives	195,381	182,398	661,192	608,382
Other investments	-	2,429	-	2,429
Cash and cash equivalents	165,396	222,286	5,350	65,656
	<u>662,306</u>	<u>693,694</u>	<u>666,542</u>	<u>676,467</u>
<u>CURRENT LIABILITIES</u>				
Trade and other payables	174,888	210,038	69,751	73,480
Loans and borrowings	50,556	95,660	38,800	52,538
Tax payable	10,296	10,251	2,892	2,893
	<u>235,740</u>	<u>315,949</u>	<u>111,443</u>	<u>128,911</u>
Net current assets	426,566	377,745	555,099	547,556
<u>NON-CURRENT LIABILITIES</u>				
Loans and borrowings	553,870	503,606	449,543	443,668
Deferred tax liabilities	25,429	25,640	-	-
	<u>579,299</u>	<u>529,246</u>	<u>449,543</u>	<u>443,668</u>
Net assets	521,129	514,507	260,127	258,856
<u>EQUITY</u>				
Share capital	210,881	207,474	210,881	207,474
Reserve for own shares	(1,292)	(1,292)	(1,292)	(1,292)
Capital reserve	4,752	4,752	-	-
Foreign currency translation reserve	(19,153)	(14,637)	-	-
Hedging reserve	(3,340)	(3,560)	-	-
Employees' share option reserve	18,962	18,609	18,962	18,609
Retained earnings	298,535	291,155	31,576	34,065
Total equity attributable to equity holders of the Company	509,345	502,501	260,127	258,856
Non-controlling interests	11,784	12,006	-	-
Total equity	521,129	514,507	260,127	258,856
<i>Group net borrowings (S\$)</i>	439,030	376,980	n.a.	n.a.
<i>Group net gearing (times)</i>	0.84x	0.73x	n.a.	n.a.

NOTES TO BALANCE SHEETS

1(b)(ii) Group's borrowings and debt securities

i) Amount repayable in one year or less, or on demand

31 Mar 11		31 Dec 10	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
-	50,556	43,122	52,538

(ii) Amount repayable after one year

31 Mar 11		31 Dec 10	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
45,450	508,420	-	503,606

Details of any collateral

Secured bank loans of the Group are secured by a joint venture's share mortgages of all its shares of China subsidiaries.

- 1(c) A cash flow statement (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE FIRST QUARTER ENDED 31 MARCH 2011**

	<u>Group</u>	
	<u>Quarter ended 31 Mar</u>	
	2011	2010
	S\$'000	S\$'000
Cash flows from operating activities		
Profit before income tax	7,935	6,963
Adjustments for:		
Employees' share option expense	353	-
Fair value loss/(gain) on derivative financial instruments	646	(121)
(Gain)/loss on sale of property, plant and equipment	(2)	394
Share of (profit)/loss of associates	(1,791)	685
Depreciation and amortisation	4,939	3,353
Finance costs	5,542	3,464
Finance income	(687)	(662)
Write back of trade and other receivables	(72)	(156)
	<u>16,863</u>	13,920
Change in inventories	(661)	2,465
Change in gross amounts due for contract work	(11,894)	(69,695)
Change in trade and other receivables	(13,529)	2,067
Change in financial receivables	(7,534)	(1,495)
Change in trade and other payables	(37,017)	20,832
Cash used in operating activities	<u>(53,772)</u>	(31,906)
Income tax paid	(551)	(1,750)
Net cash used in operating activities	<u>(54,323)</u>	(33,656)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(6,637)	(6,966)
Acquisition of intangible assets	(1,491)	(2,929)
Acquisition of non-controlling interests	-	(1,917)
Proceeds from sale of property, plant and equipment	-	314
Proceeds from sale of other investments	2,429	-
Dividends received from associates	300	5,691
Change in amounts due from related parties (non-trade)	3,756	3,580
Interest received	594	574
Net cash used in investing activities	<u>(1,049)</u>	(1,653)

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE FIRST QUARTER ENDED 31 MARCH 2011 (cont'd)**

	<u>Group</u>	
	<u>Quarter ended 31 Mar</u>	
	2011	2010
	S\$'000	S\$'000
Cash flows from financing activities		
Proceeds from exercise of share options and warrants	3,407	22,142
Proceeds from borrowings	106,694	83,258
Repayment of borrowings	(100,642)	(35,758)
Repayment of lease liabilities	-	(73)
Interest paid	(7,757)	(1,486)
Decrease on deposits pledged	3	-
Net cash from financing activities	<u>1,705</u>	<u>68,083</u>
Net (decrease)/increase in cash and cash equivalents	(53,667)	32,774
Cash and cash equivalents at beginning of the period	222,082	166,735
Effect of exchange rate changes	(3,220)	(681)
Cash and cash equivalents at end of the period	<u>165,195</u>	<u>198,828</u>

NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

1(c)(i) Cash and cash equivalents included in consolidated statement of cash flows comprise of the following:

	<u>Group</u>	
	<u>Quarter ended 31 Mar</u>	
	2011	2010
	S\$'000	S\$'000
Cash and fixed deposits	171,037	198,828
Less: Bank overdraft	(5,641)	-
Cash and cash equivalents as per balance sheet	<u>165,396</u>	198,828
Less: Deposits pledged	(201)	-
Cash and cash equivalents as per statement of cash flows	<u>165,195</u>	<u>198,828</u>

1 (d)(i) A statement (for the issuer and Group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

STATEMENT OF CHANGES IN EQUITY OF THE GROUP

	Share capital	Reserve for own shares	Capital reserve	Foreign currency translation reserve	Hedging reserve	Employees' share option reserve	Retained earnings	Total equity attributable to equity holders of the Company	Non-controlling interests	Total equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
At 1.1.2011	207,474	(1,292)	4,752	(14,637)	(3,560)	18,609	291,155	502,501	12,006	514,507
Total comprehensive income for the period	-	-	-	-	-	-	7,380	7,380	(31)	7,349
Profit/(loss) for the period	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	(4,516)	-	-	-	(4,516)	(191)	(4,707)
Foreign currency translation differences for foreign operations	-	-	-	(4,516)	-	-	-	(4,516)	(191)	(4,707)
Share of hedging reserve of associates	-	-	-	-	220	-	-	220	-	220
Total comprehensive (loss)/income for the period	-	-	-	(4,516)	220	-	7,380	3,084	(222)	2,862
Transactions with owners, recorded directly in equity	-	-	-	-	-	-	-	-	-	-
Contributions by and distributions to owners	3,407	-	-	-	-	-	-	3,407	-	3,407
Issue of shares for cash under Employees' Share Option Scheme	3,407	-	-	-	-	-	-	3,407	-	3,407
Value of employee services received for issue of share options	-	-	-	-	-	353	-	353	-	353
Total transactions with owners	3,407	-	-	-	-	353	-	3,760	-	3,760
At 31.03.2011	210,881	(1,292)	4,752	(19,153)	(3,340)	18,962	298,535	509,345	11,784	521,129

STATEMENT OF CHANGES IN EQUITY OF THE GROUP (cont'd)

	Share capital	Reserve for own shares	Capital reserve	Foreign currency translation reserve	Hedging reserve	Employees' share option reserve	Retained earnings	Total equity attributable to equity holders of the Company	Non-controlling interests	Total equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
At 1.1.2010	105,114	(1,292)	8,627	4,543	(6,716)	16,780	238,188	365,244	28,158	393,402
Total comprehensive income for the period	-	-	-	-	-	-	6,401	6,401	(533)	5,868
Profit/(loss) for the period	-	-	-	-	-	-	-	(1,577)	20	(1,557)
Other comprehensive income	-	-	-	(1,577)	(83)	-	-	(83)	-	(83)
Foreign currency translation differences for foreign operations	-	-	-	-	71	-	-	71	-	71
Share of hedging reserve of associates	-	-	-	-	431	-	-	431	-	431
Effective portion of changes in fair value of cash flow hedges	-	-	216	-	-	-	-	216	-	216
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	216	-	-	-	-	216	-	216
Share of statutory reserve of associates	-	-	216	(1,577)	419	-	6,401	5,459	(513)	4,946
Total comprehensive income/(loss) for the period	-	-	216	(1,577)	419	-	6,401	5,459	(513)	4,946
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Issue of shares for cash under Employees' Share Option Scheme	1,801	-	-	-	-	-	-	1,801	-	1,801
Issue of shares for cash under warrant subscription agreements	20,341	-	-	-	-	-	-	20,341	-	20,341
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	(1,775)	(1,775)
Transfer to capital reserve	-	-	817	-	-	-	(817)	-	-	-
Total transactions with owners	22,142	-	817	-	-	-	(817)	22,142	(1,775)	20,367
At 31.03.2010	127,256	(1,292)	9,660	2,966	(6,297)	16,780	243,772	392,845	25,870	418,715

1 (d)(i) STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

	Share capital	Reserve for own shares	Employees' share option reserve	Retained earnings	Total equity attributable to equity holders of the Company
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
At 1.1.2011	207,474	(1,292)	18,609	34,065	258,856
Loss for the period	-	-	-	(2,489)	(2,489)
Total comprehensive income for the period	-	-	-	(2,489)	(2,489)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Issue of shares for cash under Employees' Share Option Scheme	3,407	-	-	-	3,407
Value of employee services received for issue of share options	-	-	353	-	353
Total transactions with owners	3,407	-	353	-	3,760
At 31.03.2011	210,881	(1,292)	18,962	31,576	260,127
At 1.1.2010	105,114	(1,292)	16,780	47,880	168,482
Loss for the period	-	-	-	(5,080)	(5,080)
Total comprehensive income for the period	-	-	-	(5,080)	(5,080)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Issue of shares for cash under Employees' Share Option Scheme	1,801	-	-	-	1,801
Issue of shares for cash under warrant subscription agreements	20,341	-	-	-	20,341
Total transactions with owners	22,142	-	-	-	22,142
At 31.03.2010	127,256	(1,292)	16,780	42,800	185,544

1(d)(ii)Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Changes in the Company's share capital

The movements in the Company's issued and fully paid-up share capital during the first quarter ended 31 Mar 2011 were as follows:

Issued share capital

	No. of shares	Capital S\$'000
At 1 Jan 2011	857,931,364	206,182
Issue of shares under the Employees' Share Option Scheme ("Scheme")	<u>2,185,000</u>	<u>3,407</u>
At 31 Mar 2011	<u>860,116,364</u>	<u>209,589</u>

As at 31 Mar 2011, the number of ordinary shares in issue was 860,116,364 (31 Dec 2010: 857,931,364), excluding 500,000 (31 Dec 2010: 500,000) held by the Company as treasury shares.

Outstanding share options under the Scheme

	No. of options
At 1 Jan 2011	35,640,369
Options granted	5,430,000
Exercised/Forfeited	<u>(3,873,000)</u>
At 31 Mar 2011	<u>37,197,369</u>

1(d)(iii)To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

The total number of shares held as treasury shares as at 31 Mar 2011 was 500,000 (31 Dec 2010: 500,000).

The total number of issued shares excluding treasury shares as at 31 Mar 2011 was 860,116,364 (31 Dec 2010: 857,931,364).

1(d)(iv)A statement showing all sales, transfer, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

There were no sales, transfer, disposal, cancellation and/or use of treasury shares for the financial period ended 31 Mar 2011.

2. Whether the figures have been audited, or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied

Except as disclosed in paragraph 5 below, the Group and the Company have consistently applied the same accounting policies and methods of computation as in the most recently audited annual financial statements.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

The Group and the Company has reviewed the application of the new/revised FRS and Interpretations of FRS ("INT FRS") that are effective for annual periods beginning on or after 1 January 2011. None of these are expected to have a significant impact on the financial statements.

6. Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends

	31 Mar 11	31 Mar 10 Restated	Change %
Earnings per ordinary share of the Group based on net profit attributable to equity holders:-			
Based on the weighted average number of ordinary shares in issue	0.86 cts	0.80 cts	7.5
- Weighted average number of shares	859,799,031	798,016,634	7.7
On a fully diluted basis of ordinary shares	0.85 cts	0.77 cts	10.4
- Adjusted weighted average number of shares	<u>866,435,027</u>	<u>832,497,196</u>	4.1

For comparative purposes, the number of ordinary shares as at 31 Mar 2010 has been adjusted to include issue of one bonus share for every two existing ordinary shares.

7. Net asset value (for the Issuer and Group) per ordinary share based on issued share capital of the issuer at the end of the (a) current financial period reported on and (b) immediately preceding financial year.

Net assets value per ordinary share:

	<u>Group</u>		<u>Company</u>	
	31 Mar 11 Cents	31 Dec 10 Cents	31 Mar 11 Cents	31 Dec 10 Cents
Based on 860,116,364 (31 Dec 2010: 857,931,364) ordinary shares in issue	59.2	58.6	30.2	30.2

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on

8(a) Income Statement Analysis

The Group achieved revenue of \$86.8 million and profit attributable to shareholders of the Group of \$7.4 million for the first quarter ended 31 Mar 2011, increased by 15% from \$6.4 million for the first quarter ended 31 Mar 2010.

8(a)(i) Revenue

The Group's revenue for the first quarter ended 31 Mar 2011 decreased by 14% to \$86.8 million as compared to \$101.3 million for the first quarter ended 31 Mar 2010. The lower revenue was mainly due to some projects in MENA approaching the final stages of the engineering, procurement and construction works.

Sector Review

Revenue from the municipal sector contributed \$70.3 million and contributed 81% to the Group's revenue for the first quarter ended 31 Mar 2011. Revenue from China and Middle East and North Africa's ("MENA") municipal sector was \$22.1 million and \$32.7 million respectively for the first quarter ended 31 Mar 2011.

Revenue from industrial sector increased by 20% from \$11.9 million for the first quarter ended 31 Mar 2010 to \$14.3 million for the first quarter ended 31 Mar 2011.

Geographical review

China accounted for 40% of total revenue, while MENA contributed approximately 39% of total revenue for the first quarter ended 31 Mar 2011.

8(a)(ii) Costs and expenses

Raw materials and consumables used and subcontractors' costs decreased by 27% from \$59.3 million for the first quarter ended 31 Mar 2010 to \$43.3 million for first quarter ended 31 Mar 2011 which was in line with decrease in revenue.

Staff expenses decreased by 10% from \$13.1 million for the first quarter ended 31 Mar 2010 to \$11.7 million for the first quarter ended 31 Mar 2011.

Finance costs increased from \$3.5 million for the first quarter ended 31 Mar 2010 to \$5.5 million for the first quarter ended 31 Mar 2011 which was in line with higher bank borrowings.

Depreciation and amortisation increased from \$3.4 million for the first quarter ended 31 Mar 2010 to \$4.9 million for the first quarter ended 31 Mar 2011 due to changes in useful life of intangible assets and increase in property, plant and equipment and intangible assets.

Other expenses increased from \$15.2 million for the first quarter ended 31 Mar 2010 to \$16.8 million for the first quarter ended 31 Mar 2011 due to higher utilities with startup of newer plants.

The effective tax rate for the first quarter ended 31 Mar 2011 was about 7.4% and remained at a level lower than the Singapore corporate tax rate mainly due to the tax exemptions and incentives enjoyed by certain entities in the Group.

8(a)(iii) Earnings

Basic and fully diluted earnings per share for the first quarter ended 31 Mar 2011 increased by 7.5% and 10.4% respectively to 0.86 cents and 0.85 cents compared to the first quarter ended 31 Mar 2010. The increased earnings was primarily the result of cost management measures.

8(b) Statements of Financial Position Analysis

8(b)(i) The Group

The Group's shareholders' equity increased to \$509.3 million as at 31 Mar 2011 from \$502.5 million as at 31 Dec 2010. The increase was mainly attributable to the changes in share capital arising from the issue of shares under the "Employees' Share Option Scheme" for the first quarter ended 31 Mar 2011. Net profit in the first quarter ended 31 Mar 2011 further boosted the Group's equity base.

Current assets decreased to \$662.3 million as at 31 Mar 2011 from \$693.7 million as at 31 Dec 2010, which was mainly due to decreases in cash and cash equivalents. The decrease was offset by the higher gross amounts due for contract work and trade and other receivables.

Non-current assets increased to \$673.9 million as at 31 Mar 2011 from \$666.0 million as at 31 Dec 2010, which was mainly due to increases in financial receivables by \$8.3 million.

Current liabilities decreased to \$235.7 million as at 31 Mar 2011 from \$315.9 million as at 31 Dec 2010, which was mainly due to the decrease in trade-related payables during the financial period and refinancing of short term loans.

Non-current liabilities increased to \$579.3 million as at 31 Mar 2011 from \$529.2 million as at 31 Dec 2010, resulting mainly from the increase in bank borrowings during the financial period as a result of refinancing of short term loan. Included in the loans and borrowings as at 31 Mar 2011 was \$277.6 million of fixed rate unsecured notes ("Notes") issued under the Group's Multicurrency Debt Issuance Programme. The Notes will mature between 2012 and 2016.

The Group's net gearing ratio stood at 0.84 times as at 31 Mar 2011. Going forward, with the recent launch of Class A Perpetual Preference Shares, the net gearing is expected to hover around 0.5 times.

8(b)(ii) The Company

Shareholders' equity for the Company increased to \$260.1 million as at 31 Mar 2011 from \$258.9 million as at 31 Dec 2010. The increase was mainly attributable to the changes in share capital arising from the issue of shares under the "Employees' Share Option Scheme" for the first quarter ended 31 Mar 2011.

8(c) Statement of Cash flows

The Group's cash position decreased to \$165.4 million as at 31 Mar 2011 from \$222.3 million as at 31 Dec 2010.

For the financial period ended 31 Mar 2011, net cash of \$54.3 million was used in the Group's operating activities, mainly towards working capital requirements. Cash used in investing activities for the financial period was largely for capital expenditure of property, plant and equipment and intangible assets to support the Group's expansion. Cash generated from financing activities for the financial period ended 31 Mar 2011 was mainly from borrowing proceeds to fund the Group's investment.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

Not applicable.

10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

The municipal sector's fundamentals remain strong. Singapore and China markets are expected to be key contributors to the Group's revenue in the next 12 months. The Group's projects in Singapore, MENA and China are progressing on track, providing the Group with a core stream of revenue from both the Engineering Procurement & Construction ("EPC") and Operation & Maintenance ("O&M") strategic business units.

On 6 April 2011, the Group, through its wholly owned subsidiary, Tuaspring Pte Ltd, signed a 25-year Water Purchase Agreement (WPA) with PUB, Singapore's national water agency, to supply desalinated water from Singapore's second and largest seawater reverse osmosis (SWRO) desalination plant which will be located in Tuas. The SWRO plant, which will be developed by Hyflux under a Design, Build, Own and Operate (DBOO) model, is expected to commence operations in 2013.

Recently, the Group successfully launched a \$400 million Class A Perpetual Preference Shares issue, which has been listed on the main board of Singapore Exchange. Carrying a dividend rate of 6 per cent per annum, the Preference Shares are cumulative, non-convertible and non-voting and also non-dilutive to existing ordinary shareholders. The proceeds will be used to fund the Group's newest projects in Singapore and China.

The Chinese government recently outlined plans to intensify investments in water projects, promote water conservation and efficiency of use as well as to tackle water pollution in a central policy document on water. This will translate into opportunities for Hyflux where the Group already has an entrenched presence in the country.

While business conditions have stabilised, we believe that inherent risks remain. The Group continues to execute its order book diligently and focus on technology development. The Group will continue to monitor and manage its foreign exchange exposure and potential increases in commodity prices.

11. Dividend

(a) Current financial period reported on

Any dividend recommended for the current financial period reported on?

None.

(b) Corresponding period of the immediately preceding financial year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12. If no dividend has been declared/recommendeded, a statement to that effect

No dividend declared/recommendeded.

13. Confirmation Pursuant to Rule 705(5) of the Listing Manual

The directors of the Company confirm that to the best of their knowledge, nothing has come to the attention of the board of directors which may render the financial results for the quarter ended 31 Mar 11 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

Lim Poh Fong
Company Secretary
5 May 2011