IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN THE UNITED STATES OR TO U.S. PERSONS

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached Offering Circular. You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: In order to be eligible to view the attached Offering Circular or make an investment decision with respect to the securities described therein, investors must not be a U.S. person (within the meaning of Regulation S under the Securities Act (as defined below)). The attached Offering Circular is being sent at your request and by accepting the e-mail and accessing the attached Offering Circular, 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 subscribe for or purchase the securities described in the attached Offering Circular, you will be doing so pursuant to Regulation S under the Securities Act, and (2) you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of Hyflux Ltd, DBS Bank Ltd. or any person who controls any of them nor any of their respective directors, officers, employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version.

Restrictions: The attached document is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the subscription or purchase of the securities described therein.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SUBSCRIPTION OR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED THEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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 or DBS Bank Ltd. to subscribe for or purchase any of the securities 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 Offering Circular 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 Offering Circular 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 Offering Circular on the basis that you are a person into whose possession this Offering Circular 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 subscribe for or purchase any of the securities described therein.**

Actions that You May Not Take: If you receive this document by e-mail, you should not reply by e-mail, and you may not subscribe for or purchase any securities described therein by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORISED AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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OFFERING CIRCULAR DATED 20 JANUARY 2014

HYFLUX LTD

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

OFFER OF S$300,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF 5.75% PERPETUAL CAPITAL SECURITIES

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the 5.75% perpetual capital securities (the "**Capital Securities**") to be issued by Hyflux Ltd ("**Hyflux**" or the "**Issuer**") pursuant to the Offer (as defined herein) may not be circulated or distributed, nor may the Capital Securities 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 Capital Securities 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 Capital Securities 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 (in the case of such corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of such trust) where the transfer arises from an offer referred to in 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;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Approval in-principle has been obtained from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for the listing of and quotation for the Capital Securities on the Mainboard of the SGX-ST. The SGX-ST assumes no responsibility for the accuracy of any of the statements made, reports contained and opinions expressed in this Offering Circular. Approval in-principle granted by the SGX-ST for the listing of and quotation for the Capital Securities on the Mainboard of the SGX-ST is not to be taken as an indication of the merits of the Capital Securities.

Sole Lead Manager and Bookrunner

DBS

NOTICE

DBS Bank Ltd. (the "**Sole Lead Manager and Bookrunner**") has been authorised by the Issuer to arrange the Offer described herein. Under the Offer, the Issuer may, subject to compliance with all relevant laws, regulations and directives, issue the Capital Securities.

This Offering Circular contains information with regard to the Issuer, its subsidiaries, its associated companies (if any), its joint venture companies (if any) and the Capital Securities. The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains all information which is material in the context of the Offer and the issue and offering of the Capital Securities, that the information contained herein is true and accurate in all respects, the opinions, expectations and intentions expressed in this Offering Circular 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 Capital Securities would or might make any such information or expressions of opinion, expectation or intention misleading in any respect.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, HSBC Institutional Trust Services (Singapore) Limited (the "**Trustee**") or the Sole Lead Manager and Bookrunner. Save as expressly stated in this Offering Circular, 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 Offering Circular nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Offer 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, the Trustee or the Sole Lead Manager and Bookrunner to subscribe for or purchase, the Capital Securities 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 Offering Circular or any such other document or information and the offer of the Capital Securities in certain jurisdictions may be restricted by law. Persons who distribute or publish this Offering Circular or any such other document or information or into whose possession this Offering Circular 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 Capital Securities have not been, and will not be, registered under the Securities Act (as defined herein). Subject to certain exceptions, the Capital Securities may not be offered, sold or delivered within the United States or to U.S. persons.

This Offering Circular 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 Capital Securities are placed or sold or for any other purpose. Recipients of this Offering Circular shall not reissue, circulate or distribute this Offering Circular or any part thereof in any manner whatsoever.

Neither the delivery of this Offering Circular (or any part thereof) or the issue, offering, purchase or sale of the Capital Securities 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 Offering Circular has been most recently amended or supplemented.

Each of the Trustee and the Sole Lead Manager and Bookrunner has not separately verified the information contained in this Offering Circular. None of the Trustee, the Sole Lead Manager and Bookrunner or any of their respective officers or employees is making any representation or warranty expressed or implied as to the merits of the Capital Securities 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, neither the Trustee nor the Sole Lead Manager and Bookrunner 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 Offering Circular.

Neither this Offering Circular nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Offer or the issue of the Capital Securities is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Trustee or the Sole Lead Manager and Bookrunner that any recipient of this Offering Circular or such other document or information (or such part thereof) should subscribe for or purchase any of the Capital Securities. 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, the Trustee, the Sole Lead Manager and Bookrunner 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 Offering Circular 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 Offering Circular or such other document or information (or such part thereof) and the same shall not constitute a ground for rescission of any subscription, purchase or acquisition of any of the Capital Securities by a recipient of this Offering Circular or such other document or information (or such part thereof).

To the fullest extent permitted by law, none of the Trustee or the Sole Lead Manager and Bookrunner or any of their respective officers, employees or agents accepts any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by the Trustee or the Sole Lead Manager and Bookrunner or on either of their behalf in connection with the Issuer or the issue and offering of the Capital Securities. The Trustee and the Sole Lead Manager and Bookrunner accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which they might otherwise have in respect of this Offering Circular or any such statement.

Any subscription of, purchase or acquisition of the Capital Securities is in all respects conditional on the satisfaction of certain conditions set out in the Subscription Agreement and the issue of the Capital Securities by the Issuer pursuant to the Subscription Agreement. Any offer, invitation to offer or agreement made in connection with the subscription for, purchase or acquisition of the Capital Securities or pursuant to this Offering Circular shall (without any liability or responsibility on the part of the Issuer, the Trustee or the Sole Lead Manager and Bookrunner) lapse and cease to have any effect if (for any other reason whatsoever) the Capital Securities are not issued by the Issuer pursuant to the Subscription 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 Offering Circular is drawn to the restrictions on resale of the Capital Securities set out under "Subscription, Purchase and Distribution" on pages 81 and 82 of this Offering Circular.

Any person(s) who is invited to purchase or subscribe for the Capital Securities or to whom this Offering Circular is sent shall not make any offer or sale, directly or indirectly, of any Capital Securities 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 Capital Securities consult their own legal and other advisers before purchasing or acquiring the Capital Securities.

FORWARD-LOOKING STATEMENTS

All statements contained in this Offering Circular 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 Offering Circular 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 Offering Circular, 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 Offering Circular, undue reliance must not be placed on those forecasts, projections and statements. The Issuer, the Trustee and the Sole Lead Manager and Bookrunner do not represent or warrant that the actual future results, performance or achievements of the Issuer and/or the Group will be as discussed in those statements.

Neither the delivery of this Offering Circular nor the issue of any Capital Securities 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 Offering Circular since the date of this Offering Circular.

Further, the Issuer, the Trustee and the Sole Lead Manager and Bookrunner 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 Offering Circular or to reflect any change in events, conditions or circumstances on which any such statements are based.

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DEFINITIONS

The following definitions have, where appropriate, been used in this Offering Circular:

"3Q"	:	Third quarter ended or, as the case may be, ending 30 September.
"Accounting Event"	:	As defined in the Terms and Conditions.
"Agency Agreement"	:	The agency agreement to be entered into between (i) the Issuer, (ii) the Paying Agent, (iii) the Calculation Agent, (iv) the Registrar, and (v) the Trustee, as amended, varied or supplemented from time to time.
"Agents"	:	The Paying Agent, the Calculation Agent and the Registrar.
"Arrears of Distribution"	:	The Distribution(s) deferred pursuant to Condition 4.1 (*Optional Deferral of Distribution*).
"Business Day"	:	A day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in Singapore.
"Calculation Agent"	:	The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch, acting in its capacity as the calculation agent for the Capital Securities.
"Capital Securities"	:	S$300,000,000 in aggregate principal amount of 5.75% perpetual capital securities, and "**Capital Security**" means any one of them.
"CDP"	:	The Central Depository (Pte) Limited.
"Companies Act"	:	The Companies Act, Chapter 50 of Singapore, as amended or modified from time to time.
"Deed of Covenant"	:	A deed of covenant to be executed by the Issuer by way of deed poll in favour of the relevant account holders of CDP in relation to the Capital Securities, as amended, varied or supplemented from time to time.
"Directors"	:	The directors (including alternate directors, if any) of the Issuer as at the date of this Offering Circular.
"Distribution"	:	Subject to deferral, the right to receive a distribution on the Capital Securities from the Issue Date at the applicable Distribution Rate in accordance with the Terms and Conditions.
"Distribution Payment Dates"	:	23 January and 23 July of each year as the dates for payment of Distribution for the Capital Securities, and each a "**Distribution Payment Date**".
"Distribution Rate"	:	The rate of distribution applicable to the Capital Securities which is: (i) in respect of the period from, and including, the Issue Date to, but excluding, the Step-Up Date, 5.75% per annum; and (ii) in respect of the period from and including the Step-Up Date and each Reset Date falling thereafter to, but excluding the immediately following Reset Date, the Relevant Reset Distribution Rate.

"EPC"	:	Engineering, Procurement and Construction.
"FY"	:	Financial year ended or, as the case may be, ending 31 December.
"Global Certificate"	:	The global certificate representing the Capital Securities and containing provisions which apply to the Capital Securities.
"Group"	:	The Issuer, its subsidiaries, associated companies and joint ventures (save in the context of financial information relating to the Issuer, whereby "**Group**" shall mean the Issuer and its subsidiaries).
"Holders"	:	A person in whose name a Capital Security is registered (or, in the case of joint holders, the first named thereof).
"Hyflux" or **"Issuer"**	:	Hyflux Ltd.
"Initial Spread"	:	4.790 per cent.
"IRAS"	:	Inland Revenue Authority of Singapore.
"ISO"	:	International Organization for Standardization.
"Issue Date"	:	The date of issue of the Capital Securities, expected to be 23 January 2014.
"Issue Price"	:	The issue price of the Capital Securities pursuant to the Offer, being 100% of the principal amount of the Capital Securities.
"ITA"	:	Income Tax Act, Chapter 134 of Singapore, as amended or modified from time to time.
"Junior Obligations"	:	Any ordinary shares of the Issuer and any class of the Issuer's share capital and any other instruments or securities (including, without limitation, preference shares) issued, entered into or guaranteed by the Issuer that ranks or is expressed to rank, whether by its terms or by operation of law, junior to the Capital Securities.
"Latest Practicable Date"	:	8 January 2014, being the latest practicable date prior to the printing of this Offering Circular.
"MAS"	:	The Monetary Authority of Singapore.
"MBR"	:	Membrane bioreactor.
"MENA"	:	Middle East and North Africa.
"Offer"	:	The offer of S$300,000,000 in aggregate principal amount of Capital Securities.
"Offering Circular"	:	This document and all other accompanying documents, including any supplementary or replacement document which may be issued by the Issuer in connection with the Offer.
"O&M"	:	Operations and Maintenance.

"Parity Obligations"	:	Any instrument or security (including, without limitation, preference shares) issued, entered into or guaranteed by the Issuer that ranks or is expressed to rank, whether by its terms or by operation of law, *pari passu* with the Capital Securities and includes the S$400,000,000 6 per cent. cumulative non-convertible non-voting perpetual Class A preference shares issued by the Issuer.
"Paying Agent"	:	The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch, acting in its capacity as the paying agent for the Capital Securities.
"PRC"	:	People's Republic of China.
"Registrar"	:	The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch, acting in its capacity as the registrar for the Capital Securities.
"Relevant Reset Distribution Rate"	:	The Swap Offer Rate with respect to the relevant Reset Date plus the Initial Spread plus the Step-Up Margin.
"Reset Date"	:	The Step-Up Date and each date falling every three years after the Step-Up Date.
"RO"	:	Reverse osmosis.
"R&D"	:	Research and Development.
"Securities Act"	:	The United States Securities Act of 1933 and the rules and regulations of the U.S. Securities and Exchange Commission promulgated thereunder, as amended, modified or supplemented from time to time.
"SFA"	:	Securities and Futures Act, Chapter 289 of Singapore, as amended or modified from time to time.
"SFRS"	:	Singapore Financial Reporting Standards.
"SGX-ST"	:	Singapore Exchange Securities Trading Limited.
"Sole Lead Manager and Bookrunner"	:	DBS Bank Ltd.
"Step-Up Date"	:	23 January 2017.
"Step-Up Margin"	:	Two per cent.
"Subscription Agreement"	:	The subscription agreement dated 15 January 2014 made between (1) the Issuer, as issuer, and (2) the Sole Lead Manager and Bookrunner, as arranger, as amended, varied or supplemented from time to time.
"Swap Offer Rate"	:	As defined in the Terms and Conditions.
"SWRO"	:	Seawater reverse osmosis.
"Tax Deductibility Event"	:	As defined in the Terms and Conditions.
"Tax Event"	:	As defined in the Terms and Conditions.

"Terms and Conditions"	:	The terms and conditions of the Capital Securities to be set out in the Trust Deed, the text of which (subject to completion and amendment) is set out in the section entitled "Terms and Conditions of the Capital Securities".
"Trust Deed"	:	The trust deed to be executed by the Issuer to constitute the Capital Securities and containing, *inter alia*, provisions for the protection of the rights and interests of Holders.
"Trustee"	:	HSBC Institutional Trust Services (Singapore) Limited, acting in its capacity as trustee for the Holders.
"UF"	:	Ultrafiltration.
"United States" or **"U.S."**	:	United States of America.
"winding-up"	:	In respect of a person, means the final and effective order by a competent authority or resolution for the bankruptcy, winding up, liquidation, receivership or similar proceedings of that person.
"RMB"	:	Renminbi.
"S$" and **"cents"**	:	Singapore dollars and cents respectively.
"US$" or **"US dollars"**	:	United States dollars.
"%" or **"per cent."**	:	Percentage or per centum.
"m"	:	Metres.
"m^3"	:	Cubic metres.
"m^3/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 Offering Circular shall be a reference to Singapore time unless otherwise stated. Any reference in this Offering Circular to any enactment is a reference to that enactment as for the time being amended or reenacted. Any word defined under the Companies Act or the SFA or any statutory modification thereof and used in this Offering Circular 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 Simon Tay Mr Gary Kee Eng Kwee
Company Secretary	:	Ms Lim Poh Fong
Registered Office	:	80 Bendemeer Road Hyflux Innovation Centre Singapore 339949
Auditors to the Issuer	:	KPMG LLP 16 Raffles Quay #22-00 Hong Leong Building Singapore 048581
Sole Lead Manager and Bookrunner	:	DBS Bank Ltd. 12 Marina Boulevard, Level 42 Marina Bay Financial Centre Tower Three Singapore 018982
Trustee for the Holders	:	HSBC Institutional Trust Services (Singapore) Limited 21 Collyer Quay #10-02 HSBC Building Singapore 049320
Paying Agent and Agent Bank	:	The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch 21 Collyer Quay #10-02 HSBC Building Singapore 049320
Legal Advisers to the Issuer	:	Stamford Law Corporation 10 Collyer Quay #27-00 Ocean Financial Centre Singapore 049315
Legal Advisers to the Sole Lead Manager and Bookrunner	:	WongPartnership LLP 12 Marina Boulevard Level 28 Marina Bay Financial Centre Tower 3 Singapore 018982
Legal Advisers to the Trustee	:	Shook Lin & Bok LLP 1 Robinson Road #18-00 AIA Tower Singapore 048542

SUMMARY OF THE OFFER AND THE CAPITAL SECURITIES

The following is a summary of the principal terms and conditions of the Offer and the Capital Securities and is derived from, and should be read in conjunction with, the full text of this Offering Circular (and any relevant supplement to this Offering Circular), and is qualified in its entirety by reference to information appearing elsewhere in this Offering Circular.

Issuer	:	Hyflux Ltd.
Sole Lead Manager and Bookrunner	:	DBS Bank Ltd.
Offer	:	S$300,000,000 in aggregate principal amount of Capital Securities at the issue price of 100% of the principal amount of the Capital Securities.
Issue Size	:	S$300,000,000 in aggregate principal amount of Capital Securities.
Issue Price	:	100% of the principal amount of the Capital Securities.
Maturity Date	:	The Capital Securities have no fixed final date of redemption.
Distributions	:	Subject to Condition 4 (*Distribution Deferral*), the Capital Securities confer a right to receive distribution (each a "**Distribution**") from and including the Issue Date at the applicable Distribution Rate, payable semi-annually in arrears on 23 January and 23 July in each year (each, a "**Distribution Payment Date**").
Distribution Rate and Step-Up	:	The rate of distribution ("**Distribution Rate**") applicable to the Capital Securities will be: (a) in respect of the period from, and including, the Issue Date to, but excluding, the Step-Up Date, 5.75% per annum; and (b) in respect of the period from and including the Step-Up Date and each Reset Date falling thereafter to, but excluding, the immediately following Reset Date, the Relevant Reset Distribution Rate.
Distribution Deferral	:	The Issuer may, at its sole discretion, elect to defer any Distribution (in whole and not in part) which is otherwise scheduled to be paid on a Distribution Payment Date by giving notice (an "**Optional Deferral Notice**") of such election to the Holders in accordance with Condition 14 (*Notices*), the Trustee and the Agents not less than five Business Days prior to the relevant Distribution Payment Date unless, during the six-month period ending on the day before that scheduled Distribution Payment Date, a Compulsory Distribution Payment Event has occurred. Where: "**Compulsory Distribution Payment Event**" means circumstances in which either or both of the following have occurred: (a) a dividend, distribution or other payment has been paid or declared by the Issuer on or in respect of any of its Junior Obligations or Parity Obligations; and

(b) the Issuer has at its discretion redeemed, purchased, cancelled, reduced or buy-back or otherwise acquired any of its Junior Obligations or Parity Obligations.

"**Junior Obligations**" means (i) any ordinary shares of the Issuer and (ii) any class of the Issuer's share capital and any other instruments or securities (including, without limitation, preference shares) issued, entered into or guaranteed by the Issuer that ranks or is expressed to rank, whether by its terms or by operation of law, junior to the Capital Securities.

"**Parity Obligations**" means any instrument or security (including, without limitation, preference shares) issued, entered into or guaranteed by the Issuer that ranks or is expressed to rank, whether by its terms or by operation of law, *pari passu* with the Capital Securities and includes the S$400,000,000 6 per cent cumulative non-convertible non-voting perpetual Class A preference shares issued by the Issuer.

Arrears of Distribution : Any Distribution deferred pursuant to Condition 4.1 (*Optional Deferral of Distribution*) shall constitute "**Arrears of Distribution**". The Issuer may, at its sole discretion, elect to further defer any Arrears of Distribution by complying with the foregoing notice requirements applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distributions can or shall be deferred pursuant to Condition 4.1 (*Optional Deferral of Distribution*).

Each amount of Arrears of Distributions shall bear interest as if it constituted the principal of the Capital Securities at the prevailing Distribution Rate and the amount of such interest (the "**Additional Distribution Amount**") with respect to Arrears of Distributions shall be due and payable pursuant to Condition 4 and shall be calculated by applying the applicable Distribution Rate to the amount of the Arrears of Distributions and otherwise *mutatis mutandis* as provided in the provisions of Condition 3 (*Distributions*). The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added, for the purpose of calculating the Additional Distribution Amount accruing thereafter, to the amount of Arrears of Distributions remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distributions.

The Issuer:

(a) may elect to satisfy any Arrears of Distribution and Additional Distribution Amount (in whole or in part) by giving notice of such election to the Holders, the Trustee and the Paying Agent not more than 20 nor less than 15 Business Days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution or, as the case may be, any Additional Distribution Amount on the payment date specified in such notice); and

(b) shall in any event satisfy any outstanding Arrears of Distribution and any Additional Distribution Amount (in whole, but not in part) on the earliest of (A) the date of redemption of any of the Capital Securities in accordance with Condition 5; (B) the next Distribution Payment Date on the occurrence of a Distribution Stopper Event (as defined under "Restrictions in the Case of a Deferral"); and (C) the date such amount becomes due on a winding-up of the Issuer.

Any partial payment of outstanding Arrears of Distributions and Additional Distribution Amount by the Issuer shall be shared by the Holders of all outstanding Capital Securities on a pro rata basis.

Restrictions in the Case of a Deferral : If, on any Distribution Payment Date, payment of Distributions (including Arrears of Distribution and Additional Distribution Amount) scheduled to be made on such date is not made in full by reason of Condition 4 (*Distribution Deferral*), the Issuer shall not, and shall procure that none of its subsidiaries shall:

(a) declare or pay any dividends, distributions or make any other payment (including payments under any guarantee obligations) on, and will procure that no dividend, distribution or other payment (including payments under any guarantee obligations) is made on any of the Issuer's Junior Obligations or (except on a pro rata basis) any of the Issuer's Parity Obligations; or

(b) redeem, purchase, cancel, reduce, buy-back or otherwise acquire for any consideration any of the Issuer's Junior Obligations or (except on a pro rata basis) any of the Issuer's Parity Obligations,

(each a "**Distribution Stopper Event**"), in each case (A) until the Issuer has made payment in whole (and not in part only) of all outstanding Arrears of Distributions and any Additional Distribution Amount, or (B) when so permitted by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders.

Form and Denomination : The Capital Securities will be issued in registered form in the denomination of S$250,000 each. The Capital Securities will be represented on issue by a Global Certificate registered in the name of CDP and deposited with CDP. Except in the limited circumstances described in the provisions of the Global Certificate, owners of interests in the Capital Securities represented by the Global Certificate will not be entitled to receive definitive certificates in respect of their individual holdings of the Capital Securities. The Capital Securities which are represented by the Global Certificate will be transferable only in accordance with the rules and procedures for the time being of CDP.

Status of the Capital Securities : The Capital Securities constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves and with any Parity Obligations. The rights and claims of the Holders are subordinated in the manner described below.

The Holder Claims will, in the event that an order is made or an effective resolution is passed for the winding-up of the Issuer (subject to and to the extent permitted by applicable law), rank in such winding-up:

(a) junior to the rights and claims of all Senior Creditors of the Issuer;

(b) *pari passu* with each other and with the rights and claims of any Parity Creditors or holders of Parity Obligations; and

(c) senior to the rights and claims of holders of Junior Obligations.

Where:

"**Holder Claims**" means the rights and claims of the Trustee (in respect of the principal of and Distributions (including Arrears of Distributions and any Additional Distribution Amounts) on the Capital Securities) and of the Holders.

"**Parity Creditor**" means any creditor of the Issuer whose claim ranks or is expressed to rank *pari passu* with the Issuer's obligations under the Capital Securities and includes holders of the S$400,000,000 6 per cent cumulative non-convertible non-voting perpetual Class A preference shares issued by the Issuer.

"**Senior Creditors**" means, with respect to the Issuer, all creditors of the Issuer other than the Trustee (in respect of the principal of and Distributions (including Arrears of Distributions and Additional Distribution Amount) on and other amounts in respect of the Capital Securities), the Holders, any Parity Creditors of the Issuer and the holders of the Junior Obligations.

Set-off : Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer under, or arising from, the Capital Securities and each Holder will, by virtue of his holding of any Capital Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention. Without prejudice to the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Capital Securities is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its winding-up or judicial management, the liquidator or, as appropriate, judicial manager of the Issuer) and, until such time as payment is made, shall hold such amount in trust for the Issuer (or the liquidator or, as appropriate, judicial manager of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

Redemption	:	The Capital Securities are perpetual securities with no fixed final date of redemption. The Capital Securities may be redeemed at the option of the Issuer (but not the Holders) in the circumstances described under "Redemption at the Option of the Issuer", "Redemption for Taxation Reasons", "Redemption for Accounting Reasons" and "Redemption for Tax Deductibility Reasons" below.
Redemption at the Option of the Issuer	:	Subject to satisfaction of the requirements as to the laws of Singapore, if any, for the redemption of the Capital Securities and applicable law, the Capital Securities may be redeemed at the option of the Issuer, in whole or in part, on the Step-Up Date or any Distribution Payment Date thereafter (each a "**Call Date**"), on giving not less than 30 nor more than 60 days' notice to the Holders and the Trustee (which notice shall be irrevocable and shall oblige the Issuer to redeem the Capital Securities on the relevant Call Date) at their principal amount, together with Distributions accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount, if applicable).
Redemption for Taxation Reasons	:	Subject to satisfaction of the requirements as to the laws of Singapore, if any, for the redemption of the Capital Securities, applicable law and the paragraph below, the Capital Securities may be redeemed at the option of the Issuer, in whole or in part, at any time, on giving not less than 30 nor more than 60 days' irrevocable notice to the Holders and the Trustee, at their principal amount together with Distributions accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount, if applicable) if the Issuer satisfies the Trustee immediately prior to the giving of such notice that a Tax Event has occurred and is continuing. If there is available to the Issuer the opportunity to eliminate the Tax Event by pursuing some reasonable measure that will not have an adverse effect on the Issuer or the Holders and will not involve any material cost to the Issuer or the Holders, the Issuer will pursue that measure in lieu of redemption. Where: "**Tax Event**" means the event where the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Singapore or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and such obligations cannot be avoided by the Issuer taking reasonable measures available to it.
Redemption for Accounting Reasons	:	Subject to satisfaction of the requirements as to the laws of Singapore, if any, for the redemption of the Capital Securities, applicable law and the paragraph below, the Capital Securities may be redeemed at the option of the Issuer, in whole or in part, at any time, on giving not less than 30 nor more than 60 days' irrevocable notice to the Holders and the Trustee, at their principal amount together with Distributions accrued to the date fixed for redemption (including any Arrears of Distribution

and any Additional Distribution Amount, if applicable) if the Issuer satisfies the Trustee immediately prior to the giving of such notice that an Accounting Event has occurred and is continuing, provided that such date for redemption shall be no earlier than the last day before the date on which the Capital Securities may no longer be regarded as "equity" in the audited consolidated financial statements of the Issuer prepared in accordance with the Relevant Accounting Standard (as defined below).

If there is available to the Issuer the opportunity to eliminate the Accounting Event by pursuing some reasonable measure that will not have an adverse effect on the Issuer or the Holders and will not involve any material cost to the Issuer or the Holders, the Issuer will pursue that measure in lieu of redemption.

Where:

"**Accounting Event**" means the event where as a result of:

(a) any changes or amendments to the SFRS (or any other accounting standards that may replace SFRS for the purposes of the consolidated financial statements of the Issuer) or other internationally generally accepted accounting standards that the Issuer has adopted for the purposes of the preparation of its audited consolidated financial statements; or

(b) any change in the general application or official interpretation of any law or regulation by any relevant body in Singapore,

(together, the "**Relevant Accounting Standard**"), which change or amendment becomes effective on or after the Issue Date, the Capital Securities may no longer be recorded as "equity" in the audited consolidated financial statements of the Issuer prepared in accordance with the Relevant Accounting Standard.

Redemption for Tax Deductibility Reasons : Subject to satisfaction of the requirements as to the laws of Singapore, if any, for the redemption of the Capital Securities, applicable law and the paragraph below, the Capital Securities may be redeemed at the option of the Issuer, in whole or in part, at any time, on giving not less than 30 nor more than 60 days' irrevocable notice to the Holders and the Trustee, at their principal amount together with Distributions accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount, if applicable) if the Issuer satisfies the Trustee immediately before giving such notice that, as a result of:

(a) any amendment to, or change in, the laws (or any rules or regulations thereunder) of Singapore or any political subdivision or any taxing authority thereof or therein which is enacted, promulgated, issued or becomes effective otherwise on or after the Issue Date;

(b) any amendment to, or change in, an official and binding interpretation of any such laws, rules or regulations by any legislative body, court, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination) which is enacted, promulgated, issued or becomes effective otherwise on or after the Issue Date; or

(c) any applicable official interpretation or pronouncement that provides for a position with respect to such laws or regulations that differs from the previous generally accepted position which is issued or announced on or after the Issue Date,

payments by the Issuer would no longer be fully deductible by the Issuer for Singapore income tax purposes ("**Tax Deductibility Event**").

If there is available to the Issuer the opportunity to eliminate the Tax Deductibility Event by pursuing some reasonable measure that will not have an adverse effect on the Issuer or the Holders and will not involve any material cost to the Issuer or the Holders, the Issuer will pursue that measure in lieu of redemption.

Limited Rights to Institute Proceedings : The right to institute winding-up proceedings is limited to circumstances where payment under the Capital Securities has become due and is unpaid pursuant to Condition 8.2(a) (*Non-payment*). In the case of any Distribution or Arrears of Distribution or Additional Distribution Amount, such payment will not be due if the Issuer has elected to defer that payment pursuant to Condition 4 (*Distribution Deferral*).

Purchases : The Issuer or any of its subsidiaries may at any time purchase Capital Securities at any price in the open market or otherwise, provided that in any such case such purchase is in compliance with all relevant laws, regulations and directives.

Clearing and Settlement : The Capital Securities will be represented by the Global Certificate. The Capital Securities will be held in book-entry form (by delivery of the Global Certificate to CDP) pursuant to the rules of the SGX-ST and CDP.

Listing of the Capital Securities : On 15 January 2014, the SGX-ST granted its in-principle approval for the listing of and quotation for the Capital Securities on the Mainboard of the SGX-ST, subject to certain conditions.

The SGX-ST assumes no responsibility for the accuracy of any of the statements made, reports contained and opinions expressed in this Offering Circular. Approval in-principle granted by the SGX-ST and the listing of and quotation for the Capital Securities are not to be taken as an indication of the merits of the Capital Securities.

Trading of the Capital Securities	:	Upon the listing of and quotation for the Capital Securities on the Mainboard of the SGX-ST, the Capital Securities, when issued, will be traded on the Mainboard of the SGX-ST under the book-entry (scripless) settlement system. All dealings in and transactions (including transfers) of the Capital Securities effected through the SGX-ST and/or CDP shall be made in accordance with the "Terms and Conditions for Operation of Securities Accounts with The Central Depository (Pte) Limited", as the same may be amended from time to time. Copies of the "Terms and Conditions for Operation of Securities Accounts with The Central Depository (Pte) Limited" are available from CDP. For the purposes of trading on the Mainboard of the SGX-ST, each board lot of the Capital Securities will comprise S$250,000 in principal amount of the Capital Securities.
Taxation	:	All payments of principal and Distributions (including Arrears of Distribution and Additional Distribution Amounts) by or on behalf of the Issuer in respect of the Capital Securities 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 therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall (subject to Condition 7 (*Taxation*)) pay such additional amounts as will result in receipt by the Holders of such amounts as would have been received by them had no such withholding or deduction been required.
Trustee	:	HSBC Institutional Trust Services (Singapore) Limited.
Registrar	:	The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch.
Paying Agent	:	The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch.
Calculation Agent	:	The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch.
Governing Law	:	The Capital Securities shall be governed by, and construed in accordance with, the laws of Singapore.
Selling Restrictions	:	Restrictions apply to offers, sales or transfers of the Capital Securities in various jurisdictions. In all jurisdictions, offers, sales or transfers may only be effected to the extent lawful in the relevant jurisdiction. For a description of certain restrictions on the offer and issue of the Capital Securities and the distribution of offering material relating to the Capital Securities, see the section entitled "Subscription, Purchase and Distribution" for more information.
Place of Booking	:	Singapore. The office of the Issuer at which the issue of the Capital Securities will be booked is not subject to regulation or supervision by the MAS.
Security Code for the Capital Securities	:	ISIN: SG6OE1000007

TERMS AND CONDITIONS OF THE CAPITAL SECURITIES

The following, subject to amendment and save for the paragraphs in italics, are the Terms and Conditions of the Capital Securities, substantially as they will appear on the reverse of each of the definitive certificates evidencing the Capital Securities:

The issue of the S$300,000,000 5.75 per cent. perpetual capital securities (the "**Capital Securities**") was authorised by a resolution of the Board of Directors of Hyflux Ltd (the "**Issuer**") passed on 15 January 2014. The Capital Securities are constituted by a Trust Deed (the "**Trust Deed**") dated 23 January 2014 between the Issuer and HSBC Institutional Trust Services (Singapore) Limited (the "**Trustee**", which expression shall include all persons for the time being acting as the trustee or trustees under the Trust Deed) as trustee for the holders of the Capital Securities. The Capital Securities are issued with the benefit of a Deed of Covenant (the "**Deed of Covenant**") dated 23 January 2014 executed by the Issuer by way of a deed poll. These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Capital Securities. Copies of the Trust Deed, the Agency Agreement (the "**Agency Agreement**") dated 23 January 2014 relating to the Capital Securities between the Issuer, the Trustee, The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch, as paying agent (the "**Paying Agent**"), calculation agent (the "**Calculation Agent**") and the registrar named in it (the "**Registrar**"), the CDP Application Form (the "**CDP Application Form**") being the application form signed by the Issuer and accepted by The Central Depository (Pte) Limited ("**CDP**") in respect of the Capital Securities, together with the terms and conditions for the provision of depository services by CDP referred to therein, and the Deed of Covenant, are available for inspection during usual business hours at the principal office of the Trustee (presently at 21 Collyer Quay, #10-02, HSBC Building, Singapore 049320) and at the specified offices of the Paying Agent. "**Agents**" means the Paying Agent, the Calculation Agent, the Registrar and any other agent or agents appointed from time to time with respect to the Capital Securities. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Deed of Covenant and are deemed to have notice of those provisions applicable to them of the Agency Agreement and the CDP Application Form.

1. FORM, DENOMINATION, TITLE AND TRANSFER

1.1 Form and denomination: The Capital Securities are issued in registered form in the denomination of S$250,000 each. The Capital Securities are represented by registered certificates ("**Certificates**") and each Certificate shall be numbered serially and represent the entire holding of the Capital Securities by the same holder.

1.2 Title: Title to the Capital Securities passes by transfer and registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). The holder of any Capital Security will (save as otherwise required by law) be deemed to be and be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "**Holder**" and (in relation to a Capital Security) "**holder**" means the person in whose name a Capital Security is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof).

For so long as any of the Capital Securities is represented by the Global Certificate and the Global Certificate is registered in the name of CDP or a nominee of the CDP, each person who is for the time being shown in the records of CDP as the holder of a particular principal amount of such Capital Securities (in which regard any certificate or other document issued by CDP as to the principal amount of such Capital Securities standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be (and shall be) treated by the Issuer, the Paying Agent, the Calculation Agent, the Registrar and the Trustee as the holder of such principal amount of Capital Securities for all purposes (including but not limited to for the purposes of giving notices under the Conditions) other than with respect to the payment of principal and Distributions (including Arrears of Distributions and any Additional Distribution Amount) and any other amounts in respect of the Capital Securities, for which purpose the registered holder of the Global Certificate shall be treated by the Issuer, the Paying Agent, the

*Calculation Agent, the Registrar and the Trustee as the holder of such Capital Securities in accordance with and subject to the terms of the Global Certificate (and the expressions "**Holder**" and "**holder of Capital Securities**" and related expressions shall be construed accordingly). Capital Securities which are represented by the Global Certificate will be transferable only in accordance with the rules and procedures for the time being of CDP.*

1.3 Transfer: One or more Capital Securities may be transferred upon the surrender (at the specified office of the Registrar) of the Certificate representing such Capital Securities to be transferred, together with the form of transfer endorsed on such Certificate (or such other forms of transfer in substantially the same form and containing the same representations and certificates (if any), unless otherwise agreed by the Issuer) duly completed and executed and any other evidence which the Registrar may require. No transfer of title to any Capital Security will be valid or effective unless and until entered on the Register. In the case of a transfer of part only of a holding of Capital Securities represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor; provided that, in the case of a transfer of Capital Securities to a person who is already a holder of Capital Securities, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Capital Securities and entries on the Register will be made subject to the detailed regulations concerning transfer of Capital Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar, at the cost and expense of the Issuer, to any Holder upon request.

1.4 Delivery of New Certificates: Each new Certificate to be issued pursuant to Condition 1.3 (*Transfer*) shall be available for delivery within five Business Days of receipt of a duly completed request for exchange or form of transfer or the surrender of the original Certificate for exchange together with satisfaction of any other requirements imposed by these Conditions. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or, at the option of the transferee and as specified in the relevant request for exchange, form of transfer or otherwise in writing, be mailed, at the cost and expense of the Issuer, by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Registrar the costs of such other method of delivery and/or such insurance as it may specify.

1.5 No Charge: Save as provided in the Agency Agreement, transfer of Capital Securities shall be issued and registered without charge by or on behalf of the Issuer or the Registrar, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar may require).

1.6 Closed Periods: No Holder may require the transfer of a Capital Security to be registered (i) during the period of 15 days ending on (and including) the due date for any payment of principal or Distribution (including Arrears of Distribution and any Additional Distribution Amount) in respect of the Capital Securities, (ii) during the period of 15 days prior to (and including) any date on which Capital Securities may be called for redemption by the Issuer at its option pursuant to Condition 5.2 (*Redemption at the option of the Issuer*) or (iii) after any such Capital Security has been called for redemption.

2. STATUS

2.1 Status: The Capital Securities constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and shall at all times rank pari passu and without any preference or priority among themselves and with any Parity Obligations. The rights and claims of the Holders are subordinated in the manner described in Condition 2.2 (*Subordination*).

2.2 Subordination: The Holder Claims will, in the event that an order is made or an effective resolution is passed for the winding-up of the Issuer (subject to and to the extent permitted by applicable law), rank in such winding-up:

(a) junior to the rights and claims of all Senior Creditors of the Issuer;

(b) *pari passu* with each other and with the rights and claims of any Parity Creditors or holders of Parity Obligations; and

(c) senior to the rights and claims of holders of Junior Obligations.

2.3 No set-off: Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer under, or arising from, the Capital Securities and each Holder will, by virtue of his holding of any Capital Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention. Without prejudice to the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Capital Securities is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its winding-up or judicial management, the liquidator or, as appropriate, judicial manager of the Issuer) and, until such time as payment is made, shall hold such amount in trust for the Issuer (or the liquidator or, as appropriate, judicial manager of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

3. DISTRIBUTIONS

3.1 Accrual of Distribution: Subject to Condition 4 (*Distribution Deferral*), the Capital Securities confer a right to receive distribution (each a "**Distribution**") from and including 23 January 2014 at the applicable Distribution Rate, payable semi-annually in arrears on 23 January and 23 July in each year (each, a "**Distribution Payment Date**"). Unless otherwise provided in these Conditions, each Capital Security will cease to confer the right to receive any Distribution from the due date for redemption unless, upon surrender of the Certificate representing such Capital Security, payment of principal and accrued Distributions is improperly withheld or refused. In such event, Distributions shall continue to accrue at the applicable Distribution Rate (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Capital Security up to that day are received by or on behalf of the relevant holder, and (ii) the day falling seven days after the Trustee or the Paying Agent has notified Holders of receipt of all sums due in respect of all the Capital Securities up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). Where Distributions are to be calculated in respect of a period which is equal to or less than one year, the day-count fraction used will be the number of days in the relevant period, from (and including) the date from which Distributions begin to accrue to (but excluding) the date on which it falls due, divided by 365.

Distributions in respect of any Capital Security shall be calculated per S$250,000 in principal amount of each Capital Security. The amount of Distributions payable for each Capital Security for any period shall be equal to the product of the applicable Distribution Rate, the denomination of such Capital Security and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

For so long as any of the Capital Securities is represented by the Global Certificate and the Global Certificate is held by CDP, the Distributions (including Arrears of Distribution and any Additional Distribution Amount) payable on such Capital Securities will be determined based on the aggregate holdings of Capital Securities of each person who is for the time being shown in the records of CDP as the holder of a particular principal amount of such Capital Securities.

3.2 Rate of Distribution: The rate of distribution (the "**Distribution Rate**") applicable to the Capital Securities shall be:

(a) in respect of the period from, and including, the Issue Date to, but excluding, the Step-Up Date, 5.75 per cent. per annum; and

(b) in respect of the period from and including the Step-Up Date and each Reset Date falling thereafter to, but excluding, the immediately following Reset Date, the Relevant Reset Distribution Rate.

3.3 Calculation of the Reset Distribution Rate: The Calculation Agent will, on the second Business Day prior to each Reset Date, calculate the applicable Relevant Reset Distribution Rate payable in respect of each Capital Security. The Calculation Agent will cause the applicable Relevant Reset Distribution Rate determined by it to be promptly notified to the Paying Agent. Notice thereof shall also promptly be given by the Calculation Agent to the Issuer, the Trustee, the Registrar, the Paying Agent and the Holders in accordance with Condition 14 (*Notices*). All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 3 by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agent and the Holders and (subject as aforesaid) no liability to any such person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

4. DISTRIBUTION DEFERRAL

4.1 Optional Deferral of Distribution: The Issuer may, at its sole discretion, elect to defer any Distribution (in whole and not in part) which is otherwise scheduled to be paid on a Distribution Payment Date by giving notice (an "**Optional Deferral Notice**") of such election to the Holders in accordance with Condition 14 (*Notices*), the Trustee and the Agents not less than five Business Days prior to the relevant Distribution Payment Date unless, during the six-month period ending on the day before that scheduled Distribution Payment Date, a Compulsory Distribution Payment Event (as defined below) has occurred.

4.2 No Obligation to Pay: The Issuer shall have no obligation to pay any Distribution (including any Arrears of Distribution and Additional Distribution Amount) on any Distribution Payment Date if it validly elects not to do so in accordance with Condition 4.1 and any failure to pay Distributions shall not constitute a default of the Issuer in respect of the Capital Securities.

4.3 Cumulative Deferral: Any Distribution deferred pursuant to Condition 4.1 shall constitute "**Arrears of Distribution**". The Issuer may, at its sole discretion, elect to further defer any Arrears of Distribution by complying with the foregoing notice requirements applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distributions can or shall be deferred pursuant to Condition 4.1.

4.4 Additional Distribution Amount: Each amount of Arrears of Distributions shall bear interest as if it constituted the principal of the Capital Securities at the prevailing Distribution Rate and the amount of such interest (the "**Additional Distribution Amount**") with respect to Arrears of Distributions shall be due and payable pursuant to this Condition 4 and shall be calculated by applying the applicable Distribution Rate to the amount of the Arrears of Distributions and otherwise *mutatis mutandis* as provided in the foregoing provisions of Condition 3 (*Distributions*). The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added, for the purpose of calculating the Additional Distribution Amount accruing thereafter, to the amount of Arrears of Distributions remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distributions.

4.5 Distribution Stopper: If, on any Distribution Payment Date, payment of Distributions (including Arrears of Distribution and Additional Distribution Amount) scheduled to be made on such date is not made in full by reason of this Condition 4, the Issuer shall not, and shall procure that none of its subsidiaries shall:

(a) declare or pay any dividends, distributions or make any other payment (including payments under any guarantee obligations) on, and will procure that no dividend, distribution or other payment (including payments under any guarantee obligations) is made on any of the Issuer's Junior Obligations or (except on a pro rata basis) any of the Issuer's Parity Obligations; or

(b) redeem, purchase, cancel, reduce, buy-back or otherwise acquire for any consideration any of the Issuer's Junior Obligations or (except on a pro rata basis) any of the Issuer's Parity Obligations,

(each a "**Distribution Stopper Event**"), in each case (A) until the Issuer has made payment in whole (and not in part only) of all outstanding Arrears of Distributions and any Additional Distribution Amount, or (B) when so permitted by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders.

4.6 Satisfaction of Arrears of Distribution: The Issuer:

(a) may elect to satisfy any Arrears of Distribution and Additional Distribution Amount (in whole or in part) by giving notice of such election to the Holders, the Trustee and the Paying Agent not more than 20 nor less than 15 Business Days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution or, as the case may be, any Additional Distribution Amount on the payment date specified in such notice); and

(b) shall in any event satisfy any outstanding Arrears of Distribution and any Additional Distribution Amount (in whole, but not in part) on the earliest of (A) the date of redemption of any of the Capital Securities in accordance with Condition 5; (B) the next Distribution Payment Date on the occurrence of a Distribution Stopper Event; and (C) the date such amount becomes due on a winding-up of the Issuer.

Any partial payment of outstanding Arrears of Distributions and Additional Distribution Amount by the Issuer shall be shared by the Holders of all outstanding Capital Securities on a pro rata basis.

4.7 No default: Notwithstanding any other provision in these Conditions or the Trust Deed, the deferral of any Distribution payment in accordance with this Condition 4 shall not constitute a default for any other purpose (including, without limitation, pursuant to Condition 8 (*Enforcement Events*) on the part of the Issuer).

5. REDEMPTION AND PURCHASE

5.1 No fixed redemption date: The Capital Securities are perpetual securities in respect of which there is no fixed redemption date. Subject to the provisions of Condition 2 (*Status*) and without prejudice to Condition 8 (*Enforcement Events*), the Capital Securities may not be redeemed at the option of the Issuer other than in accordance with this Condition 5. No Holder shall have a right to, or may, require the Issuer to redeem any Capital Securities.

5.2 Redemption at the option of the Issuer: Subject to satisfaction of the requirements as to the laws of Singapore, if any, for the redemption of the Capital Securities and applicable law, the Capital Securities may be redeemed at the option of the Issuer, in whole or in part, on the Step-Up Date or any Distribution Payment Date thereafter (each a "**Call Date**"), on giving not less than 30 nor more than 60 days' notice to the Holders and the Trustee (which notice shall be irrevocable and shall oblige the Issuer to redeem the Capital Securities on the relevant Call Date) at their principal amount, together with Distributions accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount, if applicable).

5.3 Redemption for taxation reasons: Subject to satisfaction of the requirements as to the laws of Singapore, if any, for the redemption of the Capital Securities, applicable law and the last paragraph of this Condition 5.3, the Capital Securities may be redeemed at the option of the Issuer, in whole or in part, at any time, on giving not less than 30 nor more than 60 days' irrevocable notice to the Holders and the Trustee, at their principal amount together with Distributions accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount, if applicable) if the Issuer satisfies the Trustee immediately prior to the giving of such notice that a Tax Event has occurred and is continuing, provided that no such notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts pursuant to the occurrence of a Tax Event if a payment in respect of the Capital Securities were then due. Prior to the publication of any notice of redemption pursuant to this Condition 5.3, the Issuer shall deliver to the Trustee (A) a certificate signed by two Directors of the Issuer stating that the obligation on the part of the Issuer to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) pursuant to the occurrence of a Tax Event cannot be avoided by the Issuer taking reasonable measures available to it and (B) an opinion of independent tax or legal advisers of recognised international standing to the effect that a Tax Event has occurred, and the Trustee shall accept such certificate and opinion as conclusive evidence of the occurrence of a Tax Event in which event it shall be conclusive and binding on the Holders.

If there is available to the Issuer the opportunity to eliminate the Tax Event by pursuing some reasonable measure that will not have an adverse effect on the Issuer or the Holders and will not involve any material cost to the Issuer or the Holders, the Issuer will pursue that measure in lieu of redemption.

5.4 <u>Redemption for accounting reasons</u>: Subject to satisfaction of the requirements as to the laws of Singapore, if any, for the redemption of the Capital Securities, applicable law and the last paragraph of this Condition 5.4, the Capital Securities may be redeemed at the option of the Issuer, in whole or in part, at any time, on giving not less than 30 nor more than 60 days' irrevocable notice to the Holders and the Trustee, at their principal amount together with Distributions accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount, if applicable) if the Issuer satisfies the Trustee immediately prior to the giving of such notice that an Accounting Event has occurred and is continuing, provided that such date for redemption shall be no earlier than the last day before the date on which the Capital Securities may no longer be recorded as "equity" in the audited consolidated financial statements of the Issuer prepared in accordance with the Relevant Accounting Standard. Prior to the publication of any notice of redemption pursuant to this Condition 5.4, the Issuer shall deliver to the Trustee (A) a certificate signed by two Directors of the Issuer stating that an Accounting Event has occurred and the Issuer is entitled to effect such redemption and (B) an opinion of independent auditors of recognised international standing to the effect that an Accounting Event has occurred and is prevailing, and the Trustee shall accept such certificate and opinion as conclusive evidence of the occurrence of an Accounting Event in which event it shall be conclusive and binding on the Holders.

If there is available to the Issuer the opportunity to eliminate the Accounting Event by pursuing some reasonable measure that will not have an adverse effect on the Issuer or the Holders and will not involve any material cost to the Issuer or the Holders, the Issuer will pursue that measure in lieu of redemption.

5.5 <u>Redemption for tax deductibility reasons</u>: Subject to satisfaction of the requirements as to the laws of Singapore, if any, for the redemption of the Capital Securities, applicable law and the last paragraph of this Condition 5.5, the Capital Securities may be redeemed at the option of the Issuer, in whole or in part, at any time, on giving not less than 30 nor more than 60 days' irrevocable notice to the Holders and the Trustee, at their principal amount together with Distributions accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount, if applicable) if the Issuer satisfies the Trustee immediately before giving such notice that, as a result of:

(a) any amendment to, or change in, the laws (or any rules or regulations thereunder) of Singapore or any political subdivision or any taxing authority thereof or therein which is enacted, promulgated, issued or becomes effective otherwise on or after the Issue Date;

(b) any amendment to, or change in, an official and binding interpretation of any such laws, rules or regulations by any legislative body, court, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination) which is enacted, promulgated, issued or becomes effective otherwise on or after the Issue Date; or

(c) any applicable official interpretation or pronouncement that provides for a position with respect to such laws or regulations that differs from the previous generally accepted position which is issued or announced on or after the Issue Date, payments by the Issuer would no longer, or within 90 days of the date of the opinion referred to in paragraph (B) below would not be fully deductible by the Issuer for Singapore income tax purposes ("**Tax Deductibility Event**"), provided that no notice of redemption may be given earlier than 90 days prior to the effective date on which payments on the Capital Securities would not be fully tax deductible by the Issuer for Singapore profits tax. Prior to the publication of any notice of redemption pursuant to this Condition 5.5, the Issuer shall deliver or procure that there is delivered to the Trustee (A) a certificate signed by two directors of the Issuer stating that the circumstances referred to above prevail and setting out the details of such circumstances and (B) an opinion of the Issuer's independent tax or legal advisers of recognised international standing stating that the circumstances referred to above prevail and the date on which the relevant change or amendment to the tax regime is due to take effect, and the Trustee shall accept such certificate and opinion as conclusive evidence of the satisfaction of the conditions precedent set out above in which event it shall be conclusive and binding on the Holders.

If there is available to the Issuer the opportunity to eliminate the Tax Deductibility Event by pursuing some reasonable measure that will not have an adverse effect on the Issuer or the Holders and will not involve any material cost to the Issuer or the Holders, the Issuer will pursue that measure in lieu of redemption.

5.6 Partial Redemption

In the event of a partial redemption under Condition 5.2 (*Redemption at the option of the Issuer*), Condition 5.3 (*Redemption for taxation reasons*), Condition 5.4 (*Redemption for accounting reasons*) or Condition 5.5 (*Redemption for tax deductibility reasons*), each Capital Security will be redeemed on a pro rata basis, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

The notice to the Holders under Condition 5.2 (*Redemption at the option of the Issuer*), Condition 5.3 (*Redemption for taxation reasons*), Condition 5.4 (*Redemption for accounting reasons*) or Condition 5.5 (*Redemption for tax deductibility reasons*) in the case of a partial redemption under Condition 5.2 (*Redemption at the option of the Issuer*), Condition 5.3 (*Redemption for taxation reasons*), Condition 5.4 (*Redemption for accounting reasons*) and Condition 5.5 (*Redemption for tax deductibility reasons*) respectively shall specify the manner in which the Capital Securities shall be partially redeemed, the portion of the outstanding principal amount of each Capital Security to be redeemed and any other applicable procedures relating to the partial redemption.

For so long as any of the Capital Securities is represented by the Global Certificate held by CDP, the manner of redemption of the Capital Securities will be governed by the standard operating rules and procedures of CDP.

5.7 Notice of redemption: All Capital Securities in respect of which any notice of redemption is given under this Condition 5 shall be redeemed on the date specified in such notice in accordance with this Condition 5.

5.8 No other redemption: The Issuer shall have no obligation to make any payment of principal in respect of the Capital Securities otherwise than as provided in Conditions 5.2 (*Redemption at the option of the Issuer*), 5.3 (*Redemption for taxation reasons*), 5.4 (*Redemption for accounting reasons*) and 5.5 (*Redemption for tax deductibility reasons*) above.

5.9 Purchases: The Issuer or any of its subsidiaries may at any time purchase Capital Securities at any price in the open market or otherwise, provided that in any such case such purchase is in compliance with all relevant laws, regulations and directives. The Capital Securities so purchased, while held by or on behalf of the Issuer or any such subsidiary, shall not entitle the holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders or for the purposes of Condition 11.1 (*Meetings of Holders*).

5.10 Cancellation: All Certificates representing Capital Securities purchased by or on behalf of the Issuer or any of its subsidiaries may be surrendered for cancellation to the Registrar at its specified office and, upon surrender thereof, all such Capital Securities shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Capital Securities shall be discharged.

6. PAYMENTS

6.1 Method of payment:

(a) Payment of principal shall be made (subject to surrender of the relevant Certificates at the specified office of the Registrar if no further payment falls to be made in respect of the Capital Securities represented by such Certificates) in the manner provided in paragraph (b) below.

(b) Distributions (including any Arrears of Distribution and any Additional Distribution Amount) on each Capital Security shall be paid to the person shown on the Register at the close of business on the sixth Business Day before the due date for payment thereof (the "**Record Date**"). Payments of Distributions (including any Arrears of Distribution and any Additional Distribution Amount) on each Capital Security shall be made in the relevant currency by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Capital Security at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar (such application being submitted not later than five Business Days before the Record Date), such payment of Distributions (including any Arrears of Distribution and any Additional Distribution Amount) may be made by transfer to an account in the relevant currency maintained by the payee with a bank and all bank charges associated with such transfer shall be borne by the Issuer.

(c) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Holder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of Distributions (including any Arrears of Distribution and any Additional Distribution Amount) being paid is less than the amount then due, the Registrar will annotate the Register with the amount of Distributions (including any Arrears of Distribution and any Additional Distribution Amount) so paid.

6.2 Payments subject to laws: 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 (*Taxation*). No commissions or expenses shall be charged to the Holders in respect of such payments.

6.3 Payment initiation: Where payment is to be made by transfer to an account in the relevant currency, payment instructions (for value the due date, or if that is not a Business Day, for value the first following day which is a Business Day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed, on the last day on which the Paying Agent is open for business preceding the due date for payment or, in case of payments of principal where the relevant Certificate has not been surrendered at the specified office of the Registrar, on a day on which the Paying Agent is open for business and on which the relevant Certificate is surrendered.

6.4 Payments on business days: If any date for payment in respect of any Capital Security is not a Business Day, the Holder shall not be entitled to payment until the following Business Day nor to any Distribution or other sum in respect of such postponed payment and shall not be entitled to any further interest or other payment in respect of any such delay.

6.5 Agents: The Paying Agent, the Calculation Agent and the Registrar initially appointed by the Issuer and their respective specified offices are listed below. The Paying Agent, the Calculation Agent and the Registrar act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Holder. The Issuer reserves the right at any time to vary or terminate the appointment of the Paying Agent, the Calculation Agent or the Registrar and to appoint additional or other Paying Agents, Calculation Agents or Registrars, provided that it will at all times maintain a Paying Agent, a Calculation Agent and a Registrar with a specified office in Singapore. Notice of any change in the Paying Agent, the Calculation Agent, the Registrar or their specified offices will promptly be given to the Holders in accordance with Condition 14 (*Notices*).

7. TAXATION

All payments of principal and Distributions (including Arrears of Distributions and Additional Distribution Amounts) by or on behalf of the Issuer in respect of the Capital Securities 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 therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Holders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Capital Security presented for payment:

7.1 Other connection: by or on behalf of a Holder who is liable 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 Capital Security or the receipt of any sums due in respect of such Capital Security (including, without limitation, the Holder being a resident of, or a permanent establishment in, Singapore); or

7.2 Presentation more than 30 days after the Relevant Date: 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 such Capital Security for payment on the last day of such period of 30 days.

Any reference in these Conditions to principal, Distributions, Arrears of Distributions and/or Additional Distribution Amounts shall be deemed to include all amounts in the nature of principal payable pursuant to Condition 5 (*Redemption and Purchase*), all amounts payable pursuant to Condition 3 (*Distributions*) and any additional amounts which may be payable under these Conditions or any undertaking given in addition to or substitution for it under the Trust Deed.

8. ENFORCEMENT EVENTS

8.1 Non-payment when due: Notwithstanding any of the provisions below in this Condition 8, the right to institute winding-up proceedings is limited to circumstances where payment under the Capital Securities has become due and is unpaid in accordance with Condition 8.2(a). In the case of any Distribution or Arrears of Distribution or Additional Distribution Amount, such payment will not be due if the Issuer has elected to defer that payment pursuant to Condition 4 (*Distribution Deferral*), provided that nothing in this Condition 8, including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any of its directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer in respect of any costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Capital Securities.

8.2 Enforcement Events: If any of the following events occurs, the Trustee at its discretion may, if so requested by Holders of not less than 25 per cent. in principal amount of the Capital Securities then outstanding, or if so directed by an Extraordinary Resolution shall (provided that the Trustee shall have been put into funds, indemnified and/or secured to its satisfaction) institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for payment of the Capital Securities at their principal amount together with any Distributions accrued to such date (including any outstanding Arrears of Distribution and any Additional Distribution Amount, if applicable), as provided in the Trust Deed:

(a) Non-payment: the Issuer fails to pay the principal of or any Distribution (including Arrears of Distributions and Additional Distribution Amounts) on any of the Capital Securities when due (save, for the avoidance of doubt, for Distributions (including Arrears of Distribution and Additional Distribution Amounts) which have been deferred in accordance with Condition 4.1 (*Optional Deferral of Distribution*)) and such failure continues for a period of 10 Business Days in the case of Distributions or two Business Days in the case of principal; or

(b) Winding-up: an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer.

8.3 Enforcement: Without prejudice to Condition 8.2 (*Enforcement Events*) but subject to Condition 8.4 (*Entitlement of Trustee*), the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Capital Securities (other than any payment obligation of the Issuer under or arising from the Capital Securities or the Trust Deed, including, without limitation, payment of any principal or Distribution (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Capital Securities, including any damages awarded for breach of any obligation), provided that in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums in cash or otherwise, sooner than the same would otherwise have been payable by it.

8.4 Entitlement of Trustee: The Trustee will not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Holders holding not less than 25 per cent. in principal amount of the Capital Securities outstanding, and (b) it shall have been put into funds, indemnified and/or secured to its satisfaction.

8.5 Right of Holders: No Holder shall be entitled to proceed directly against the Issuer unless the Trustee, having become so bound to proceed or being able to prove in such winding-up or claim in such liquidation, fails or neglects to do so within a reasonable period and such failure or neglect shall be continuing, in which case the Holder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 8.

8.6 Extent of Holders' remedy: No remedy against the Issuer, other than as referred to in this Condition 8, shall be available to the Trustee or the Holders, whether for the recovery of amounts owing in respect of the Capital Securities or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Capital Securities or under the Trust Deed.

9. PRESCRIPTION

Claims in respect of principal and Distributions (including Arrears of Distributions and any Additional Distribution Amounts) shall be prescribed and will become void unless made as required by Condition 6 (*Payments*) within a period of six years from the appropriate Relevant Date for payment.

10. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws, at the specified office of the Registrar or the Paying Agent or such other Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Holders in accordance with Condition 14 (*Notices*) during its business hours, upon payment by the claimant of the fees and costs incurred in connection with such replacement, on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Certificate is subsequently presented for payment, there will be paid to the Issuer on demand the amount payable by the Issuer in respect of such Certificate) and otherwise as the Issuer may require, and provided that such loss is advertised in *The Business Times* or such other leading English language newspaper in Singapore in accordance with Section 125 of the Companies Act, Chapter 50 of Singapore. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

11. MEETINGS OF HOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

11.1 Meetings of Holders: The Trust Deed contains provisions for convening meetings of Holders to consider any matter affecting their interests, including modification by Extraordinary Resolution of the Capital Securities (including these Conditions) or any provisions of the Trust Deed. The Issuer or the Trustee may at any time convene a meeting. If it receives a written request by Holders holding at least 10 per cent. in principal amount of the Capital Securities for the time being outstanding and is indemnified and/or secured to its satisfaction against all costs and expenses, the Trustee shall convene a meeting of the Holders. Every meeting shall be held at a time and place approved by the Trustee. An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Holders, whether present or not, except that any Extraordinary Resolution proposed, *inter alia*, (i) to modify the dates on which Distributions (including any Arrears of Distribution or any Additional Distribution Amount) are payable in respect of the Capital Securities, (ii) to reduce or cancel the principal amount of, or Distributions (including any Arrears of Distribution or any Additional Distribution Amount) on, the Capital Securities, (iii) to change the currency of payment or denomination of the Capital Securities, (iv) to alter the method or basis of calculating the amount of any payment of principal or any Distribution (including Arrears of Distributions and Additional Distribution Amounts) in respect of the Capital Securities or the date for any such payment, (v) to amend the subordination provisions of the Capital Securities, (vi) 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 (vii) to modify the provisions concerning the quorum required at any meeting of Holders or the majority required to pass an Extraordinary Resolution, will only be binding if passed at a meeting of the Holders (or at any adjournment thereof) at which a special quorum (provided for in the Trust Deed) is present. The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Capital Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

11.2 Modification and Waiver: The Trustee may agree, without the consent of the Holders, 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 error or is made to comply with mandatory provisions of Singapore law or is required by CDP and/or any other clearing system in which the Capital Securities 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 that is in the opinion of the Trustee not materially prejudicial to the interests of the Holders. Any such modification, authorisation or waiver shall be binding on the Holders and, if the Trustee so requires, such modification shall be notified to the Holders as soon as practicable.

11.3 Entitlement of the Trustee: In connection with the exercise of its functions (including but not limited to those referred to in this Condition 11) the Trustee shall have regard to the interests of the Holders as a class and shall not have regard to the consequences of such exercise for individual Holders.

12. 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 put into funds, indemnified and/or secured to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or any of its subsidiaries without accounting to the Holders for any profit resulting from such transactions.

The Trustee may rely without liability to Holders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to the Trustee and whether the liability of such accountants, financial advisers, financial institution or any other expert in relation thereto is limited by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice.

13. FURTHER ISSUES

The Issuer may from time to time without the consent of the Holders create and issue further securities either having the same terms and conditions as the Capital Securities in all respects (or in all respects except for the first payment of Distributions on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Capital Securities) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Capital Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition 13 and forming a single series with the Capital Securities. Any further securities forming a single series with the outstanding securities of any series (including the Capital Securities) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the prior written consent of the Trustee or the prior approval of the Holders by way of an Extraordinary Resolution), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Holders and the holders of securities of other series where the Trustee so decides.

14. NOTICES

Notices to Holders will be valid if (i) for so long as the Capital Securities are listed on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and the rules of the SGX-ST so require, published on the website of the SGX-ST at http://www.sgx.com and (ii) if published in a daily newspaper of general circulation in Singapore (or, if the holders of any Capital Securities can be identified, notices to such holders will also be valid if despatched by prepaid registered post (by airmail if to another country) to such holders at their addresses appearing in the Register (in the case of joint holders to the address of the holder whose name stands first in the Register)). 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, or in the case where the notice is despatched to the relevant Holder, on the fourth day after the date of despatch to the Holders.

Until such time as any definitive certificates are issued, so long as the Global Certificate is issued in the name of CDP, notices to Holders will only be valid if despatched by prepaid registered post (by airmail if to another country) to persons who are for the time being shown in the records of CDP as the holders of the Capital Securities or if the rules of CDP so permit, delivered to CDP for communication by it to the Holders, except that if the Capital Securities are listed on the SGX-ST and the rules of the SGX-ST so require, notice will in any event be published in accordance with the preceding paragraph. Any such notice shall be deemed to have been given to the Holders on the fourth day after the date of despatch to the holders of Capital Securities or, as the case may be, on the fourth day after the date of delivery of the notice to CDP.

Notwithstanding the other provisions of this Condition 14, in any case where the identity and addresses of all the Holders 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.

15. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT

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

16. GOVERNING LAW

The Trust Deed and the Capital Securities are governed by, and shall be construed in accordance with, Singapore law.

17. DEFINITIONS

Unless the context otherwise requires, the following terms will have the following meanings in these Conditions:

"**Accounting Event**" means the event where as a result of:

(a) any changes or amendments to the Singapore Financial Reporting Standards ("**SFRS**") (or any other accounting standards that may replace SFRS for the purposes of the consolidated financial statements of the Issuer) or other internationally generally accepted accounting standards that the Issuer has adopted for the purposes of the preparation of its audited consolidated financial statements; or

(b) any change in the general application or official interpretation of any law or regulation by any relevant body in Singapore, (together, the "**Relevant Accounting Standard**"), which change or amendment becomes effective on or after the Issue Date, the Capital Securities may no longer be recorded as "equity" in the audited consolidated financial statements of the Issuer prepared in accordance with the Relevant Accounting Standard.

"**Additional Distribution Amount**" has the meaning provided in Condition 4.4 (*Additional Distribution Amount*)

"**Arrears of Distribution**" has the meaning provided in Condition 4.3 (*Cumulative Deferral*).

"**Business Day**" means a day (other than a public holiday, Saturday or Sunday) on which commercial banks are open for business in Singapore.

"**Certificates**" has the meaning provided in Condition 1.1 (*Form and denomination*).

"**CDP**" means The Central Depository (Pte) Limited.

"**Compulsory Distribution Payment Event**" means circumstances in which either or both of the following have occurred:

(a) a dividend, distribution or other payment has been paid or declared by the Issuer on or in respect of any of its Junior Obligations or Parity Obligations; and

(b) the Issuer has at its discretion redeemed, purchased, cancelled, reduced or buy-back or otherwise acquired any of its Junior Obligations or Parity Obligations.

"**directive**" includes any present or future directive, regulation, request, requirement, rule or credit restraint programme of any agency of any state or any self-regulating organisation (but, if not having the force of law, only if compliance with the directive is in accordance with the general practice of persons to whom the directive is intended to apply).

"**Distribution Payment Date**" has the meaning provided in Condition 3.1 (*Accrual of Distribution*).

"**Distribution Period**" means the period from, and including, the Issue Date to, but excluding, the first Distribution Payment Date and each successive period thereafter from, and including each Distribution Payment Date to, but excluding, the next succeeding Distribution Payment Date.

"**Distribution Rate**" has the meaning provided in Condition 3.2 (*Rate of Distribution*).

"**Distribution Stopper Event**" has the meaning provided in Condition 4.4 (*Distribution Stopper*).

"**Distribution**" has the meaning provided in Condition 3.1 (*Accrual of Distribution*).

"**Enforcement Event**" means any of the events specified in Condition 8.2 (*Enforcement Events*).

"**Extraordinary Resolution**" has the meaning provided in the Trust Deed.

"**Global Certificate**" means the global certificate representing the Capital Securities, or some of them, substantially in the form set out in the Trust Deed.

"**Group**" has the meaning provided in the Trust Deed.

"**Holder Claims**" means the rights and claims of the Trustee (in respect of the principal of and Distributions (including Arrears of Distributions and any Additional Distribution Amounts) on the Capital Securities) and of the Holders.

"**Holder**" has the meaning provided in Condition 1.2 (*Title*).

"**Initial Spread**" means 4.790 per cent.

"**Issue Date**" means 23 January 2014.

"**Junior Obligations**" means (a) any ordinary shares of the Issuer and (b) any class of the Issuer's share capital and any other instruments or securities (including, without limitation, preference shares) issued, entered into or guaranteed by the Issuer that ranks or is expressed to rank, whether by its terms or by operation of law, junior to the Capital Securities.

"**outstanding**" has the meaning provided in the Trust Deed.

"**Parity Creditor**" means any creditor of the Issuer whose claim ranks or is expressed to rank pari passu with the Issuer's obligations under the Capital Securities and includes holders of the S$400,000,000 6 per cent cumulative non-convertible non-voting perpetual Class A preference shares issued by the Issuer.

"**Parity Obligations**" means any instrument or security (including, without limitation, preference shares) issued, entered into or guaranteed by the Issuer that ranks or is expressed to rank, whether by its terms or by operation of law, pari passu with the Capital Securities and includes the S$400,000,000 6 per cent. cumulative non-convertible non-voting perpetual Class A preference shares issued by the Issuer.

"**Record Date**" has the meaning provided in Condition 6.1(b) (*Method of payment*).

"**Reference Banks**" means the principal Singapore office of three local banks in the Singapore interbank market, selected by the Calculation Agent in consultation with the Issuer.

"**Relevant Date**" in respect of any Capital Security 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 Business Days after that on which notice is duly given to the Holders in accordance with Condition 14 (*Notices*) that, upon further presentation of the Capital Security being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon presentation.

"**Reset Date**" means the Step-Up Date and each date falling every three years after the Step-Up Date.

"**Relevant Reset Distribution Rate**" means the Swap Offer Rate with respect to the relevant Reset Date plus the Initial Spread plus the Step-Up Margin.

"**Senior Creditors**" means, with respect to the Issuer, all creditors of the Issuer other than the Trustee (in respect of the principal of and Distributions (including Arrears of Distributions and Additional Distribution Amount) on and other amounts in respect of the Capital Securities), the Holders, any Parity Creditors of the Issuer and the holders of the Junior Obligations.

"**SGX-ST**" has the meaning provided in Condition 14 (*Notices*).

"**Step-Up Date**" means the Distribution Payment Date falling on 23 January 2017.

"**Step-Up Margin**" means two per cent.

"**subsidiaries**" has the meaning provided in the Trust Deed.

"**Swap Offer Rate**" means the rate in per cent. per annum determined and notified by the Calculation Agent to the Issuer and the Holders (in accordance with Condition 14 (*Notices*)):

(a) equal to the prevailing three-year Singapore Dollar Swap Offer Rate published by a recognised industry body or a relevant authority (in each case, following consultation with DBS Bank Ltd., as Sole Lead Manager and Bookrunner, and the Issuer) prescribed by such recognised industry body or relevant authority on the second Business Day preceding the relevant Reset Date (the "**Reset Determination Date**"); or

(b) if on the Reset Determination Date, there is no three-year Singapore Dollar Swap Offer Rate published by the recognised industry body or relevant authority, the Calculation Agent will determine the Swap Offer Rate which shall be to the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) of the rates for a maturity of three years (excluding the highest and the lowest rates) which appear on Page TPIS on the monitor of the Bloomberg Agency under the caption "Tullett Prebon – Rates – Interest Rate Swaps – Asia Pac – SGD" and the column headed "Ask" (or if the Calculation Agent determines that such page has ceased to be the commonly accepted page for determining the Swap Offer Rate, such other replacement page as may be specified by the Calculation Agent after taking into account the industry practice at that relevant time and the recommendations by the recognised industry body or relevant authority) at the close of business on each of the five consecutive Business Days prior to and ending on the Reset Determination Date, <u>provided however that</u>:

(i) if, at the close of business on any of one or more of the said five consecutive Business Day period, there are no rates for a maturity of three years available on Page TPIS on the monitor of the Bloomberg Agency under the caption "Tullett Prebon – Rates – Interest Rate Swaps – Asia Pac – SGD" and the column headed "Ask" (or if the Calculation Agent determines that such page has ceased to be the commonly accepted page for determining the Swap Offer Rate, such other replacement page as may be specified by the Calculation Agent after taking into account the industry practice at that relevant time and the recommendations by the recognised industry body or relevant authority), the Calculation Agent will determine the Swap Offer Rate which shall be the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) of the rates which are available during that five consecutive Business Day period; or

(ii) if, at the close of business on each day of the said five consecutive Business Day period, there are no rates for a maturity of three years available on Page TPIS on the monitor of the Bloomberg Agency under the caption "Tullett Prebon – Rates – Interest Rate Swaps – Asia Pac – SGD" and the column headed "Ask" (or if the Calculation Agent determines that such page has ceased to be the commonly accepted page for determining the Swap Offer Rate, such other replacement page as may be specified by the Calculation Agent after taking into account the industry practice at that relevant time and the recommendations by the recognised industry body or relevant authority), the Calculation Agent will request quotation(s) from the Reference Banks for their three-year Singapore Dollar Swap Offer Rate as at the close of business on the Reset Determination Date and the Calculation Agent will determine the Swap Offer Rate which shall be the arithmetic mean (rounded up, if necessary, to the nearest 1/16 per cent.) of such offered quotations.

"**<u>Tax Event</u>**" means the event where the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Singapore or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and such obligations cannot be avoided by the Issuer taking reasonable measures available to it.

"**<u>winding-up</u>**" of a person means a final and effective order by a competent authority or resolution for the bankruptcy, winding up, liquidation, receivership or similar proceedings of that person.

Paying Agent, Calculation Agent and Registrar
The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch
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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 is today one of the world's leading water solutions companies and desalination plant suppliers. Its key markets include Southeast Asia, the PRC, India and the MENA region.

In preparation for a public listing, Hyflux Pte Ltd was incorporated on 31 March 2000 to assume the role of an investment holding company for the Group. Hydrochem (S) Pte Ltd became a wholly-owned subsidiary of Hyflux Pte Ltd. Subsequently on 20 December 2000, Hyflux Pte Ltd was converted to a public limited company and its name was changed to Hyflux Ltd.

On 8 January 2001, Hyflux launched its initial public offering, and on 17 January 2001, Hyflux shares began trading on the SGX-ST. Hyflux was the first water treatment company to be listed in Singapore.

As at the Latest Practicable Date, Hyflux has a market capitalisation of approximately S$1 billion.

The Group'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 25 years. Leveraging on its foundation, human capital and strategic partnerships, the Group is well-positioned to capitalise on the opportunities present in the global water industry.

The Group provides a comprehensive suite of integrated services in water to suit the myriad needs of its clients, from R&D, membrane manufacturing, membrane and system sales, process engineering, turnkey project management, EPC, O&M of water plants, to investment in water and infrastructure projects.

The Group's water business provides solutions in:

- seawater desalination;
- water recycling;
- wastewater treatment; and
- potable water treatment.

The Group's track record includes Singapore's first water recycling plant and its only two SWRO desalination plants, as well as the PRC's largest SWRO desalination plant in the Dagang district, Tianjin province, the PRC. The Group is also building one of the world's largest SWRO desalination plant in Magtaa, Algeria, which is currently undergoing testing and commissioning.

Leveraging on its cutting edge water filtration and purification technologies, the Group has developed its own brand of innovative water treatment solutions and products to enhance the quality and taste of water for the residential market.

To date, the Group's membranes and systems have been installed in more than 1,300 plants in over 400 locations across the globe. With more than 2,400 staff worldwide, a proven track record and the ability to draw on its comprehensive capabilities across the entire value chain, the Group 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, economic development, pollution and depleting water sources have resulted in many regions of the world coming under increasing water stress. With the mounting water scarcity, there is a growing appreciation of the need to better manage resources to ensure a secure water future. Such demand and supply mismatch in the water industry will drive investments in the sector, with a focus on water policy reforms, water efficiency measures and solutions such as desalination and water recycling.

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 the Group's cost-effective and environmentally responsible solutions in desalination, water recycling, wastewater and potable water treatment.

1.3 Key Milestones

With more than 20 years of experience, the Group has achieved a number of key milestones, including landmark project wins, acquisitions, industry firsts and world records. The following are significant dates in the Group's history.

Year	**Significant Event**
Year 2013	
December	The Group achieved financial close for the project financing of the Tuaspring Desalination Plant, with a S$720 million 18-year term loan facility to fund the development of the desalination and on-site power plant. The project financing is provided by Maybank Singapore and Maybank Kim Eng Securities Pte Ltd, who are the lead arrangers, sole underwriters and bookrunners for the facility.
September	The Group officially opened the Tuaspring Desalination Plant, Singapore's second and largest SWRO desalination plant. With a capacity of 318,500 m^3 of desalinated water per day, the Tuaspring Desalination Plant is currently Asia's largest seawater desalination plant and uses Hyflux's proprietary Kristal® UF membrane technology for its desalination pre-treatment.
August	The Group signed an exclusive strategic co-operation framework agreement for the development of the Hejiang Fobao Yulanshan Mountain Wetlands project in Sichuan province, the PRC.
May	The Group signed a US$138.7 million export credit financing agreement with KfW-IPEX Bank GmbH ("**KfW-IPEX**") to finance the purchase of key components for the 411 megawatt combined cycle gas turbine power plant in the Tuaspring desalination project located in Tuas, Singapore. Under the financing agreement, Euler Hermes Deutschland AG, the Export Credit Agency of Germany, will provide an export credit guarantee to KfW-IPEX. The key components that will be purchased with the financing facility include the gas and steam turbines supplied by Siemens AG.
April	1. The Group entered into a strategic partnership with Grundfos Holding A/S ("**Grundfos**") for the development of a standardised UF membrane-based sub-system for the treatment of surface and ground water. The collaboration will enable the Group to expand its current product offering to include the supply of standardised UF sub-systems to system builders and original equipment manufacturers.

	2. The Group signed a Memorandum of Understanding ("**MOU**") with each of the People's Government of Chuxiong City and the People's Government of Qujing City in Yunnan province, the PRC, to develop water and environmental projects worth about RMB1.2 million and less than RMB2 billion, respectively, in the Chuxiong Development Zone, the Luliang Industrial Park and local townships within the two cities. These projects will adopt the Group's advanced Kristal® membrane technology.
January	The Group, together with its consortium partner, Hitachi Ltd ("**Hitachi**"), finalised and signed a water purchase agreement with Dahej SEZ Limited ("**DSL**").
Year 2012	
July	The Group officially unveiled its new global headquarters, the Hyflux Innovation Centre, in Bendemeer Road, Singapore.
June	The Group signed a US$14.4 million buyer's credit agreement with the Japan Bank for International Cooperation ("**JBIC**") to finance the purchase of key components for the Tuaspring Desalination Plant.
Year 2011	
October	The Group launched the new Kristal® Tri-bore polymeric UF membrane model that had been certified by NSF International under the NSF Standard 61, the American national standard for drinking water products.
July	Public Utilities Board ("**PUB**") and the Group marked the groundbreaking for Singapore's second and largest SWRO desalination plant.
April	1. The Group 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.
March	The Group signed a MOU with Japan's Mizuho Corporate Bank ("**Mizuho**") to collaborate on global water business development and explore various financing structures for water projects.
February	The Group was awarded a concession to develop a wastewater treatment plant for Zunyi City in north Guizhou province, the PRC.
January	The Group 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	
December	The joint venture ("**JV**") – Galaxy Newspring Pte Ltd ("**Galaxy**") – set up by the Group 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**").
June	The Group launched its new generation of UF membranes, the Kristal 2000, and the Membrane Evaluation System for hollow fibre membranes at the Singapore International Water Week.
March	The Group was awarded the EPC contract by TP Utilities Pte Ltd for stage one of the Tembusu Seawater Desalination Plant on Jurong Island, Singapore.
February	The Group was awarded the contract by PUB to design, construct, test and commission Singapore's largest MBR plant at Jurong Water Reclamation Plant.
Year 2009	
December	The Group signed a JV agreement with JGC Corporation of Japan ("**JGC**") to jointly develop green field projects in the PRC.
November	The Group secured a contract to design and supply a desalination facility for the Salalah Independent Water and Power Project ("**IWPP**") in Oman.
August	The Group signed a MOU for global collaboration on water projects with JBIC.
Year 2008	
April	The Group won the bid to build one of the world's largest SWRO desalination plant at Magtaa, Algeria.
Year 2007	
November	The Group launched HWT, the first pure-play global water business trust to be listed in Asia.
January	The Group teamed with Marmon Water LLC to establish JVs, licensing agreements on water treatment products.
Year 2006	
October	The Group clinched the deal to build a SWRO desalination plant at Tlemcen, Algeria.
August	The Group entered the Indian water market and built a high grade industrial water plant in Bangalore.
April	The Group acquired CEPAration B.V. of Netherlands and invested in the development of cutting-edge ceramic hollow fibre membranes.

Year 2004	
December	The Group entered the Middle East market.
November	The Group unveiled its groundbreaking Membrane Technology R&D Centre, the largest of its kind in Asia outside of Japan at that time.
July	The Group signed an MOU with the PRC National Environmental Protection Corporation to jointly invest in and develop municipal and water treatment facilities.
June	The Group clinched the deal to build the PRC's largest SWRO desalination plant in Tianjin province, the PRC.
Year 2003	
January	The Group won the bid to build Singapore's first seawater desalination plant using RO membrane technology. The tender was also Singapore's first public-private-partnership project.
Year 2002	
December	The Group clinched the deal to design and construct the Seletar NEWater plant in Singapore.
September	The Group announced a 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	
December	The Group was awarded its maiden municipal contract to supply and install process equipment for the high grade water reclamation (NEWater) plant at Bedok, Singapore.
January	Hyflux listed on SGX-ST.
Year 1999 and before	
1999	The Group commenced manufacturing of its proprietary membranes.
1997	The Group built the first water recycling plant in Singapore for the Jurong Bird Park.
1994	The Group 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. BUSINESS STRATEGY & STRENGTHS

At the Group, 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. The Group's spirit of innovation and entrepreneurship drives its technological advancements in membranes, commercialisation of applications, project management and O&M. The Group 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:

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

R&D is the core of the Group'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 large team of multi-disciplinary membrane specialists, researchers and scientists, the Group 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, one of the largest in Asia outside of Japan, the Group ensures that the development of cutting-edge technologies remains its key driver to spearhead sustainable growth for the Group.

Through its in-house research or collaboration with reputable institutions worldwide, the Group 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. The Group's dedicated, multi-disciplinary team of experts works closely with its clients around the world, who are facing challenges ranging from waste treatment to product recovery. Its researchers evaluate the economies and science of its clients' process efficiencies and the suitability of introducing its membrane technologies into their processes.

The Group'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 Global Water Intelligence U.K. ("**GWI**").

In 2010, Hyflux received a Distinction Award for Desalination Company of the Year at the Global Water Awards, by GWI. Hyflux also received the Water Technology Company of the Year Award 2010 and the Water Technology Company of the Year Award 2011 from Frost and Sullivan. More recently in 2013, Hyflux received the Asia Pacific Water Technology Company of the Year 2013 from Frost and Sullivan.

2.2 Raising the bar with its technology

At the heart of the Group'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 the Group 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. The Group'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.

The Group will continue to invest heavily in innovation and in high value-added membrane manufacturing processes. Currently, it has a new manufacturing hub located at Tuas in Singapore, with over 70,000 square metres to house its key membrane manufacturing activities.

The Group officially unveiled its new global headquarters, the Hyflux Innovation Centre, in Bendemeer Road, Singapore in July 2012. Besides serving as the executive and corporate offices of the Group, the Hyflux Innovation Centre also houses expanded engineering, design and technology commercialisation facilities. The Hyflux Innovation Centre adopts "green" and "intelligent" features and has received a Solar Pioneer Award from Singapore's Energy Innovation Programme Office and Energy Market Authority for its efforts to harvest renewable energy for common areas of the building. It has also received the Green Mark Platinum Award from Singapore's Building & Construction Authority for incorporating best practices in environmental design and construction, and for adopting green building technologies.

As part of the Group's efforts to expand its engineering capabilities, it has opened an Engineering Resource Centre in Pune, India in 2013 that will support its global operations and long-term growth. The Engineering Resource Centre will provide engineering services for the project to develop a SWRO desalination plant within the Dahej Special Economic Zone, and for the Group's other projects around the world.

2.3 Developing, financing and structuring of assets

As a single one-stop provider of a comprehensive suite of services for water assets, the Group is not only competent technically, but also has the capability to originate and develop assets. The Group works very closely with its partners and financing institutions to finance these assets through optimised structures that meet both its asset-light business model, as well as the return requirements of its partners. The listing of HWT and the subsequent formation of Galaxy with its JV partner Mitsui are examples of the structuring capability of the Group. As part of the Group's financing and structuring strategy, the Group works with major financial institutions for long term limited or non-recourse financing, and also seeks strategic JV partnerships (examples of which include its existing partnerships with JGC Corporation, Hitachi and Mitsui).

2.4 Design & development and systems assembly

The Group 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 1,300 plants in over 400 locations across the globe, the Group's dedicated team of environmental specialists will be able to advise on and evaluate all aspects of the system process together with its clients. The Group'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 on-site. As part of the suite of services, the Group is also able to construct pilot plants and conduct trials for its clients to check the suitability of membrane types and the system configuration in any specified application before actual installation. The Group'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 the Group'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 the Group to guarantee quality and on-time delivery. The Group's systems assembly and production facilities are ISO-certified and located in Singapore and Yangzhou, the PRC.

2.5 Overall project management

Having built over 40 large scale plants in the PRC, Singapore and Algeria, the Group'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.

The Group'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, the Group is building one of the world's largest SWRO desalination plant (500,000 m^3/day) in Magtaa, Algeria.

The Group has also built the following landmark seawater desalination plants:

- Tuaspring Desalination Plant (318,500 m^3/day) in Tuas, Singapore, which is Singapore's second and largest seawater desalination plant;
- SingSpring Desalination Plant (136,380 m^3/day), in Tuas, Singapore, which is Singapore's first, and an award-winning, seawater desalination plant;
- the PRC's largest SWRO desalination plant (100,000 m^3/day) in Dagang district, Tianjin province, the PRC; and
- the Souk Tleta Desalination Plant (200,000 m^3/day), in Tlemcen, Algeria.

For more details on the above awards, as well as the other awards and accolades won by the Group, please refer to the sub-section entitled "Awards and Accolades" below.

2.6 Plant operation and maintenance

Having built and operated numerous plants either on behalf of its clients or as part of its own portfolio, the Group has amassed years of experience operating and maintaining commercial plants of various sizes.

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

2.7 Retrofitting

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

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

2.8 Deepening its presence in growth markets

In 2001, the Group had only two main markets, Singapore and the PRC – but has since expanded into Southeast Asia, India and the MENA region. The Group will continue its focus on these key growth markets.

The Group 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 is undergoing testing and commissioning. 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 the Group to improve its penetration in the MENA region, and will position the Group 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, the Group will continue its push into India, where access to clean safe water for consumption becomes more pressing by the day. In 2013, the Group and its consortium partner, Hitachi, signed a water purchase agreement with DSL to develop a SWRO desalination plant (336,000 m^3/day) within the Dahej Special Economic Zone in the state of Gujarat, India, for a term of 30 years (including an estimated three-year period for the development of the SWRO desalination plant). The SWRO desalination plant will employ UF pre-treatment and RO technologies to treat seawater into water suitable for industrial use. DSL is committed to purchase 100% of the desalinated water on a take-or-pay basis. The Group is expected to undertake an estimated US$420 million worth of the project value. The consortium is currently in discussions with financial institutions to obtain non-recourse project financing for the project.

The Group's home market, Singapore, offers exciting opportunities for water reclamation and desalination from both the public and private sectors as the country seeks self-sufficiency for its water needs. In 2010, the Group was awarded two EPC projects in Singapore – an MBR plant for PUB and the first stage of a 182,000 m^3/day desalination project on Jurong Island for TP Utilities Pte Ltd, a wholly-owned unit of Tuas Power Ltd. In 2011, the Group clinched the project to design, build, own and operate Singapore's second and largest SWRO desalination plant (318,500 m^3/day) in Tuas, Singapore.

2.9 Asset management and strategic partnerships

The asset management approach taken by the Group has enabled it to strengthen its competitive position in the global marketplace. 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 with JBIC and JVs with Mitsui and JGC. These synergistic partnerships explore growth opportunities in the Group's key markets in Asia, the Middle East and selective markets in Africa to expand its market share in the global water industry.

2.9.1 Asset management

In 2007, the Group 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. The Group holds 30% of the units in the Singspring Trust. This trust structure is a good springboard to realise the Group's asset-light strategy.

In 2009, the Group 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, the Group 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 the Group and Mitsui – the Group'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. Galaxy currently owns and operates more than 20 water plants in the PRC.

2.9.2 Strategic partnerships with local partners

The Group 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 companies by providing capital, local knowledge and contacts. The Group remains the sole supplier of its proprietary membrane technology as well as its EPC works.

2.9.3 Global partnership with JBIC

In 2009, the Group signed a 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 the Group'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 the Group with the opportunities and financial leverage to further expand its presence in the global market for water projects. The partnership will also enable the Group to tap on the market knowledge and connections of its partners in markets which the Group has yet to establish a strong presence, such as India and some of the MENA countries.

In June 2012, Hyflux signed a US$14.4 million buyer's credit agreement with JBIC to finance the purchase of key components for the Tuaspring Desalination Plant. The loan is co-financed by Mizuho, with Nippon Export and Investment Insurance providing the buyer's credit insurance for such co-financed portion. The loan is the first buyer's credit loan extended by JBIC to the Group following their MOU for global collaboration. It is also the first time the Group has secured a buyer's credit loan to finance the purchase of components for its projects.

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

2.10 Developing its people

To enter into the next phase of growth, the Group focuses on recruiting, engaging, motivating and retaining individuals whose skills, aspirations and values are aligned with the Group's strategic vision and core values. The Group employs some 2,400 employees around the world. The Group's 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. The Group 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.

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

2.11 Capitalising on opportunities

The Group 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, the Group will forge into new markets with its strategic partners.

3. CORE BUSINESS

Driven by a solid base of technology know-how and commercialisation, the Group's business lines are:

- water solutions;
- membrane sales; and
- O&M of water plants.

3.1 Water Solutions

The Group 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. The Group's involvement in O&M also provides incentive to minimise life-cycle cost of the plant.

3.1.1 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, the Group 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, membrane-based desalination 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 the Group are as follows:

3.1.1.1 SingSpring Desalination Plant

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

- one of the largest SWRO desalination plants 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 one of PUB's pioneering public-private partnership initiatives 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.

3.1.1.2 Tianjin 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 on 30 years' concession
Capacity:	100,000 m^3/day, expandable to 150,000 m^3/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 the Group'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 from testing and commissioning.

3.1.1.3 Souk Tleta Desalination Plant

Client:	Algerian Energy Company ("**AEC**"), Algeria
Project:	Design, develop, build, operate and maintain a SWRO desalination plant on 25 years' concession
Capacity:	200,000 m^3/day
Completed:	2011

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

The plant, which is situated just 50 m from the coast, utilises the Group'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.

3.1.1.4 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:	68,000 m^3/day
Completed:	2012

The Group 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 the Group. 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.

3.1.1.5 Tuaspring Desalination Plant

Client:	PUB, Singapore
Project:	Design, construct, finance and maintain a seawater desalination plant for a period of 25 years
Capacity:	318,500 m^3/day
Completed:	2013

The Tuaspring Desalination Plant is Singapore's second and largest seawater desalination plant. It integrates an on-site 411 megawatt combined cycle gas turbine power plant to supply power to the desalination plant and to the National Electricity Market of Singapore.

3.1.1.6 Tembusu Seawater Desalination Plant

Client:	TP Utilities Pte Ltd
Project:	EPC works for Stage One of the Tembusu Seawater Desalination Plant in Singapore
Capacity:	182,000 m^3/day
Completed:	2013

The Group was 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, has a designed capacity to produce approximately 182,000 m^3/day of high grade industrial water to be supplied to the petrochemical factories that will be situated in the Tembusu area of Jurong Island.

3.1.1.7 Magtaa Desalination Plant

Client:	AEC, Algeria
Project:	Design, develop, build, operate and maintain a SWRO desalination plant on 25 years' concession
Capacity:	500,000 m^3/day
Expected Completion:	2014

The Group won the bid – amidst intense global competition with top-flight international players – to build the then world's largest SWRO desalination plant in Magtaa, Algeria, shortly after winning the 200,000 m^3/day Souk Tleta desalination project in October 2006. This landmark win has helped the Group surge ahead in the global water landscape. The pre-treatment process in this plant uses the Group's award-winning proprietary Kristal® UF membranes. With a designed capacity of 500,000 m^3/day, the project is one of the the world's single largest UF and RO desalination plant.

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

3.1.2 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 channelled for use in industries, leaving more water available for human consumption.

The Group's experience in building water recycling plants in Singapore and the PRC utilising its proprietary Kristal® UF membranes makes the Group 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.

The key water recycling projects undertaken by the Group are as follows:

3.1.2.1 Bedok NEWater Plant

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

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

3.1.2.2 Seletar NEWater Plant

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

Following the Group's first success in the Bedok NEWater plant, another NEWater project was secured from PUB in December 2002. The Group designed, constructed and commissioned Singapore's third NEWater plant at Seletar to produce 24,000 m^3/day of NEWater for Phase 1 and expanded it to a maximum of 40,000 m^3/day for Phase 2.

The Group's proprietary Kristal® UF membrane system was selected for use at the Seletar NEWater plant in the pre-treatment stage. This represented a technology breakthrough in the treatment of different feed waters, municipal wastewater and other liquid streams. Capable of producing 24,000 m^3 of recycled wastewater per day, the plant marks the first time that the Group's proprietary UF membranes were used on such a scale.

The UF membrane system based on Kristal® technology is simple, robust and subjected to the most stringent quality control. This ensures 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.

3.1.3 Wastewater Treatment – Conventional and MBR Technology

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

A one-stop solutions provider, the Group'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 wastewater treatment projects undertaken by the Group are as follows:

3.1.3.1 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:	80,000 m^3/day (wastewater treatment plant), 40,000 m^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.

3.1.3.2 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:	50,000 m^3/day (wastewater treatment plant), 30,000 m^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 a quality fit for reuse or discharge to coastal, surface or brackish waterways, small footprint, easy retrofit and simple operations.

The key project for MBR water treatment plants undertaken by the Group is as follows:

3.1.3.3 Jurong MBR

Client:	PUB, Singapore
Project:	Design, construct, test and commission Singapore's largest MBR plant
Capacity:	68,000 m^3/day
Expected Completion:	2014

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.

3.1.4 Potable Water Treatment

The Group 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, and free from pollution, harmful organisms and impurities. The Group'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.

3.1.4.1 Chestnut Avenue Waterworks ("CAWW")

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

The CAWW is Singapore's first waterworks that uses membrane-based filtration to produce potable water. To meet increasing treatment demands, the Group 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.

3.2 Membrane Sales

The Group is focused on developing a comprehensive range of membrane products and systems through in-house research and collaboration with reputable institutions worldwide.

To date, the Group's proprietary membranes are installed in more than 1,300 plants worldwide, providing environmentally-friendly solutions to a wide range of applications in water treatment and industrial manufacturing processing. The Group's proprietary membranes and systems include the following:

3.2.1 Kristal® Polymer Hollow Fibre UF Membrane

When it comes to filtration, the Group's Kristal® polymeric UF hollow fibre membranes and systems offer a superior level of performance, efficiency and reliability. Designed with a cross-flow and out-to-in configuration, Kristal® membranes deliver consistent, high quality product water even in challenging feed water conditions.

Made from specially formulated hydrophilic polyethersulfone or polyvinylidene difluoride material, Kristal® membranes have the advantage of high flux rates, low fouling tendencies and enhanced chemical resistance. Its uniquely designed asymmetric profile with sponge-like structure and small pore size ensure consistent, high permeate flux and quality. With minimum operating attention, Kristal® can still meet the strictest discharge criteria with ease even in challenging feed water conditions. As a result, Kristal® users can enjoy a low capital and installation cost with a large membrane area per unit volume at a small footprint.

Committed to providing safe drinking water, Kristal® has received numerous awards and certifications from international organisations, government agencies as well as consultants. Manufactured according to ISO standards, Kristal® is the first UF membrane to achieve certification by NSF International, the independent, non-profit, non-governmental organisation which is the world leader in product certification for public health and safety.

Kristal® membranes have been employed in more than 1,000 locations worldwide, from the largest desalination plants to small and medium-sized water treatment facilities across some 400 locations all over the world. This is a key testament to the effectiveness and quality of Kristal® membranes

3.2.2 PoroCep® Hollow Fibre Submerged Membrane

Designed for use in MBR systems, the Group's PoroCep® hollow fibre submerged membranes combine innovative compact design with sustained high performance efficiency that help save energy and reduce costs throughout a wastewater plant's lifecycle.

Manufactured and assembled in Singapore, PoroCep® membranes are made from high-density polyethylene, a non-toxic, non-leaching material with excellent tensile strength as well as strong pH and oxidation resistance. Like Kristal®, the asymmetric and slit pore structure gives rise to the sharp rejection profile allowing PoroCep® to deliver consistently, high quality permeate regardless of the fluctuations in feed water quality. Its unique free-floating design minimises fouling and maximises membrane packing density allowing users to save energy costs and use a lower footprint compared to conventional treatment methods.

Drawing upon its experience in NEWater (municipal wastewater recycling plant) projects in Singapore and extensive membrane research, Hyflux developed PoroCep®, a reliable, high performance solution that is well suited for industrial and municipal wastewater treatment and reclamation.

3.2.3 FerroCep® Stainless Steel Tubular Membrane

Designed and engineered to handle high viscosity feeds, the Group's FerroCep® stainless steel membranes offer a solution to many industrial filtration needs where high concentrations of chemicals, suspended solids and contaminants make other membrane separation methods unsuitable. Manufactured in Singapore, FerroCep® combines the process durability of stainless steel material with membrane separation technology.

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 extreme conditions like elevated temperatures and pressures, concentrated solvents or extreme pH and has a much longer service life (more than 10 years) than most ceramic and polymeric membranes. The tubular cross-flow technology and 316L stainless steel construction allow FerroCep® membranes to run at high cross-flow velocities that provide a "sweeping" action to wash away any foulants residing on the membranes' surface, while maintaining a reasonable pressure drop as compared to other membrane configurations with smaller diameters.

Because of its robust nature, FerroCep® is a versatile membrane that has been employed in many industries including food and beverage, textile, pulp and paper, oil and gas, metal and pharmaceutical. FerroCep® is able to help industrial users achieve significant cost savings through the reduction of production costs, energy consumption as well as wastewater discharge making it the superior industrial separation solution.

3.2.4 Standard Membrane Systems

Powered by engineering excellence and membrane-based water treatment expertise, the Group's Standard Membrane Systems are a series of compact, pre-engineered seawater and brackish water RO systems that incorporate the Group's proprietary Kristal® UF membranes with RO membrane units and components.

These systems address the challenges of water shortages and water usage restrictions faced by industries and communities worldwide by providing a reliable, high quality supply of water in a simple, fast and cost-effective way. Designed for high performance efficiency and low lifecycle costs, the Standard Membrane Systems can be rapidly installed (turnaround time of 8 weeks) and started up to offer a reliable, cost effective and high quality water supply to industries and small communities facing water shortages or water usage restrictions.

Backed by the Group's years of expertise and experience in design, development, process engineering, installation, operation and maintenance of small to large scale desalination facilities worldwide, users can count on the Group's Standard Membrane Systems to offer a sustainable solution to cater to their water needs.

3.2.5 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.

Compact, specific and intuitive, 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 upgradable version MES-S-5000 offers components like built-in thermal controls, multiple preset testing parameters and quick data exporting capabilities.

Complementing the MES is the Group'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 the

Group's 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.

3.3 Operations & Maintenance

The Group'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 the Group 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. In 2010, the Group'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. More recently, the Group's Souk Tleta Desalination Plant in Tlemcen, Algeria, received a Highly Commended Award for "Desalination Plant of the Year" at the Global Water Awards 2012 by GWI.

The Group 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; and
- advice on plant improvements.

Over the years, the Group has been working on growing its O&M order book as part of its concerted initiative to develop recurring and predictable income streams. As O&M revenues are contractually supported over concession periods which typically range from 20 to 30 years, a stronger O&M order book translates to a higher proportion of steady and predictable revenue for the Group. As at 30 June 2013, the Group's O&M order book amounted to approximately S$1.94 billion.

4. AWARDS AND ACCOLADES

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

In 2013:

- Frost & Sullivan – "Asia Pacific Water Technology Company of the Year 2013"

In 2012:

- Global Water Intelligence U.K. Commendation Awards – "Desalination Plant of the Year – Souk Tleta Desalination Plant"

In 2011:

- Frost and Sullivan – "Water Technology Company of the Year Award 2011"
- SIAS Investors' Choice Awards – Runner Up - "Most Transparent Company Award 2011"

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 - Magtaa Desalination Plant”
- Global Water Intelligence U.K. Commendation Awards – “Desalination Plant of the Year - Tianjin Dagang Desalination Plant”

In 2009:

- Asiamoney – Best Managed Companies in 2009, Overall Best Managed Company in Singapore (Medium Cap)

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"

5. RECENT DEVELOPMENTS

In August 2013, the Group signed an exclusive strategic co-operation framework agreement for the development of the Hejiang Fobao Yulanshan Mountain Wetlands project in Sichuan province, the PRC. The project is envisioned to be a world-class ecological and environmentally friendly development consisting of residential, commercial, recreational and tourism developments. It would leverage on the Group's expertise and experience in water treatment solutions and environmental technology to design and develop sustainable water infrastructure and environmental related facilities for the project.

In September 2013, the Group officially opened the Tuaspring Desalination Plant, Singapore's second and largest SWRO desalination plant. With a capacity of 70 million gallons, or 318,500 m^3, of desalinated water per day, the Tuaspring Desalination Plant supplies PUB with desalinated water over a 25-year concession period. The plant, which uses Hyflux's proprietary Kristal® UF membrane technology for its desalination pre-treatment process, holds the distinction of having one of the largest UF pre-treatment membrane installations in the world.

In December 2013, the Group achieved financial close for the project financing of the Tuaspring Desalination Plant, with a S$720 million 18-year term loan facility to fund the development of the desalination plant and on-site power plant. The project financing is provided by Maybank Singapore and Maybank Kim Eng Securities Pte Ltd, who are the lead arrangers, sole underwriters and bookrunners for the facility.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information in this section relate to the Group.

The following tables set out the audited consolidated financial information of the Group as at and for the financial years ended 31 December 2010, 2011 and 2012, as well as the unaudited consolidated financial information of the Group as at and for the third quarter ended 30 September 2013 (and its comparatives). This selected financial information has been derived from the Group's audited consolidated financial statements and unaudited financial statements included in this Offering Circular and should be read in conjunction with those financial statements and the notes thereto.

*The following financial information in respect of the financial years ended 31 December 2010, 2011 and 2012 has not been restated for the adoption of the following Singapore Financial Reporting Standards (each, a "**SFRS**") that the Group adopted from the financial year beginning 1 January 2013:*

- *SFRS 110* *Consolidated Financial Statements*
- *SFRS 111* *Joint Arrangements*
- *SFRS 112* *Disclosure of Interests of Other Entities*
- *Revised SFRS 27* *Separate Financial Statements*
- *Revised SFRS 28* *Investments in Associates and Joint Ventures*

The mandatory effective date of these SFRSs is 1 January 2014.

Prior to 1 January 2013, the Group accounted for its investments in joint arrangements using the proportionate consolidation method. Pursuant to the application of SFRS 111, all existing joint arrangements are classified as joint ventures and accounted for using the equity method. The application of SFRS 111 did not result in any change to the Group's net assets and net profits for the financial years ended 31 December 2010, 2011 and 2012.

The unaudited financial statements for the third quarter ended 30 September 2013, including its comparatives, as included on pages 55 to 57 in this section and in Appendix V of this Offering Circular was prepared based on the early adoption of SFRS 111.

Audited Consolidated Income Statements for the Financial Years ended 31 December 2010, 2011 and 2012

	The Group		
	2012 **S$'000**	**2011** **S$'000**	**2010** **S$'000**
Revenue	682,384	481,975	569,737
Other income	6,964	8,064	6,855
Changes in inventories of finished goods and work-in-progress	792	(408)	2,641
Raw materials and consumables used and subcontractors' cost	(413,496)	(259,473)	(302,961)
Staff costs	(85,924)	(60,040)	(65,408)
Depreciation, amortisation and impairment	(29,392)	(36,637)	(27,501)
Other expenses	(60,123)	(50,067)	(68,089)
Finance costs	(28,460)	(22,597)	(16,760)
Share of profits of associates, net of income tax	4,253	1,226	1,959
Profit before income tax	76,998	62,043	100,473
Tax expense	(12,285)	(6,318)	(11,588)
Profit after income tax	64,713	55,725	88,885
Profit attributable to:			
Owners of the Issuer	60,994	53,027	88,510
Non-controlling interests	3,719	2,698	375
	64,713	55,725	88,885

Audited Consolidated Balance Sheets as at 31 December 2010, 2011 and 2012

	The Group		
	31 December 2012 S$'000	31 December 2011 S$'000	31 December 2010 S$'000
NON-CURRENT ASSETS			
Property, plant and equipment	207,071	188,571	155,826
Intangible assets	42,444	43,876	62,075
Intangible assets arising from service concession arrangements	360,366	154,937	129,494
Investment in associates	104,092	108,887	75,032
Financial receivables	704,811	418,320	226,149
Trade and other receivables	14,594	15,552	15,816
Deferred tax assets	2,050	2,829	1,616
Total non-current assets	1,435,428	932,972	666,008
CURRENT ASSETS			
Gross amounts due for contract work	119,059	176,910	254,469
Inventories	32,456	24,195	26,261
Financial receivables	12,548	4,937	5,851
Trade and other receivables, including derivatives	209,621	231,093	182,398
Other investments	–	–	2,429
Cash and cash equivalents	541,232	662,358	222,286
Total current assets	914,916	1,099,493	693,694
CURRENT LIABILITIES			
Trade and other payables, including derivatives	318,205	227,840	210,038
Loans and borrowings	64,435	118,121	95,660
Tax payable	9,152	10,262	10,251
Total current liabilities	391,792	356,223	315,949
Net current assets	523,124	743,270	377,745

	The Group		
	31 December 2012 S$'000	31 December 2011 S$'000	31 December 2010 S$'000
NON-CURRENT LIABILITIES			
Loans and borrowings	1,054,306	712,301	503,606
Deferred tax liabilities	27,217	28,374	25,640
Total non-current liabilities	1,081,523	740,675	529,246
Net assets	877,029	935,567	514,507
EQUITY			
Share capital	605,196	604,740	207,474
Reserve for own shares	(51,484)	(4,461)	(1,292)
Capital reserves	9,094	6,467	4,752
Foreign currency translation reserve	(30,480)	3,635	(14,637)
Hedging reserve	656	(3,996)	(3,560)
Employees' share option reserve	22,457	19,647	18,609
Retained earnings	305,154	294,559	291,155
Total equity attributable to equity holders of the Issuer	860,593	920,591	502,501
Non-controlling interests	16,436	14,976	12,006
Total equity	877,029	935,567	514,507

Financial Review in respect of FY2010, FY2011 and FY2012

FY2012 versus FY2011

The Group's revenue and profit attributable to owners of the Issuer (PATMI) increased by 42% to $682.4 million and 15% to $61.0 million, respectively, from FY2011. This was mainly contributed by higher municipal revenue in Asia ex-China region.

Raw materials and consumables used and subcontractors' costs increased by 59% in FY2012 as a result of revenue growth. Similarly, more staff costs were incurred in meeting the Group's revenue growth. Increase in other expenses was caused by rental of machinery and equipment in FY2012 as well as non-recurring gains arising from sales of certain machinery and equipment in FY2011.

Current assets decreased to $914.9 million in FY2012 from $1,099.5 million in FY2011, mainly due to decreases in cash and cash equivalents and gross amounts due for contract work. Non-current assets increased by 54% in FY2012 contributed by increases in intangible assets arising from service concession arrangements and financial receivables arising from the Group's activities in Asia ex-China.

Non-current liabilities increased by $340.8 million from FY2011, contributed by increases in loans and borrowings to support the Group's expansion and investment activities.

FY2011 versus FY2010

The Group's revenue decreased by 15% in FY2011 due to projects in the MENA region nearing completion and the impact of Arab Spring on new contracts. This was partially offset by contributions from Asia ex-China projects. Lower PATMI in FY2011 was caused by lower revenue as well as higher financing costs, depreciation and amortisation costs.

Raw materials and consumables used and subcontractors' costs decreased by 14% in line with lower revenue generated. Similarly, staff costs reduced by 8% from FY2010. Other expenses decreased by $18.0 million in FY2011 as a result of lower foreign exchange loss and gains arising from sales of certain machinery and equipment.

Current assets increased to $1,099.5 million in FY2011 from $693.7 million in FY2010, due mainly to net proceeds from issuance of 6% cumulative non-convertible non-voting perpetual Class A preference shares of $393 million as well as trade and other receivables. The increase was offset by the lower gross amounts due for contract work. Non-current assets increased by 40% in FY2011 due to various factors, including increases in financial receivables arising from its service concession arrangement activities in Asia ex-China and investment in associates.

Increases in the Group's current liabilities of 13% and non-current liabilities of 40% respectively were due to additional borrowings to support the Group's expansion and investment activities.

Unaudited Consolidated Income Statement for the Third Quarter ended 30 September 2013

	The Group	
	Quarter ended 30 September	
	2013 **S$'000**	**2012** **S$'000** **Restated**
Revenue	**187,745**	148,896
Other income	**1,488**	1,444
Changes in inventories of finished goods and work-in-progress	**3,724**	4,057
Raw materials and consumables used and subcontractors' cost	**(75,098)**	(90,649)
Staff costs	**(18,723)**	(22,362)
Depreciation, amortisation and impairment	**(27,867)**	(5,013)
Other expenses	**(33,395)**	(13,538)
Finance costs	**(6,983)**	(5,128)
Share of losses of associates and joint ventures, net of income tax	**(3,509)**	(1,074)
Profit before income tax	**27,382**	16,633
Tax expense	**(3,139)**	(1,474)
Profit for the period	**24,243**	15,159
Profit attributable to:		
Owners of the Issuer	**25,278**	14,518
Non-controlling interests	**(1,035)**	641
Profit for the period	**24,243**	15,159

Unaudited Consolidated Balance Sheets as at 30 September 2013 and 31 December 2012

	The Group	
	30 September 2013 S$'000	**31 December 2012 S$'000 Restated**
NON-CURRENT ASSETS		
Property, plant and equipment	**179,520**	195,388
Intangible assets	**34,805**	32,722
Intangible assets arising from service concession arrangements	**747,376**	226,485
Investment in joint ventures	**233,060**	223,308
Investment in associates	**99,783**	104,092
Other investments	**18,022**	–
Financial receivables	**374,762**	504,145
Trade and other receivables	**15,000**	14,594
Deferred tax assets	**3,276**	1,656
Total non-current assets	**1,705,604**	1,302,390
CURRENT ASSETS		
Gross amounts due for contract work	**95,400**	119,119
Inventories	**32,056**	30,561
Financial receivables	**12,488**	7,289
Trade and other receivables	**242,868**	232,787
Cash and cash equivalents	**318,762**	497,558
Total current assets	**701,574**	887,314
CURRENT LIABILITIES		
Trade and other payables	**245,372**	307,071
Loans and borrowings	**80,519**	58,688
Tax payable	**10,306**	8,932
Total current liabilities	**336,197**	374,691
Net current assets	**365,377**	512,623

	The Group	
	30 September 2013 S$'000	**31 December 2012 S$'000 Restated**
NON-CURRENT LIABILITIES		
Loans and borrowings	**1,177,725**	932,919
Deferred tax liabilities	**6,401**	5,065
Total non-current liabilities	**1,184,126**	937,984
Net assets	**886,855**	877,029
EQUITY		
Share capital	**606,574**	605,196
Reserve for own shares	**(51,484)**	(51,484)
Capital reserve	**7,295**	9,094
Foreign currency translation reserve	**(9,223)**	(30,480)
Hedging reserve	**(785)**	656
Employees' share option reserve	**23,862**	22,457
Retained earnings	**307,528**	305,154
Total equity attributable to owners of the Issuer	**883,767**	860,593
Non-controlling interests	**3,088**	16,436
Total equity	**886,855**	877,029

Financial Review in respect of the Third Quarter ended 30 September 2013

<u>3Q2013 versus 3Q2012 (restated)</u>

The Group's revenue and PATMI increased by 26% to $187.7 million and 74% to $25.3 million, respectively, from 3Q2012. This was mainly contributed by projects undertaken during the period as well as continuing overall cost management.

Raw materials and consumables used and subcontractors' costs decreased by 17% in 3Q2013 as a result of improved cost management. Similarly, staff costs reduced by 16%, in line with the completion of some of the Group's major projects. Higher finance costs by 36% in 3Q2013 due to an overall higher borrowings in financing the Group's projects.

Depreciation, amortisation and impairment increased to $27.9 million from 3Q2012 contributed by impairment made for its subsidiaries in the PRC and certain non-core assets in 3Q2013. Increase in other expenses was caused by higher professional fees and rental of machinery and equipment as well as provisions made against receivables amounting to $8.4 million during the period.

<u>30 September 2013 versus 31 December 2012 (restated)</u>

Current assets decreased to $701.6 million as at 30 September 2013 from $887.3 million as at 31 December 2012, mainly due to decreases in cash and cash equivalents as a result of deployment of funding for projects. Non-current assets increased by 31% as at 30 September 2013 contributed by increases in intangible assets arising from service concession arrangements as the Group progresses with its projects.

Non-current liabilities increased by $246.1 million from 31 December 2012, contributed by increases in loans and borrowings to support the Group's expansion and investment activities.

CAPITALISATION AND INDEBTEDNESS

The table below sets forth the Group's capitalisation and indebtedness as at 30 September 2013 and as adjusted to account for the issue of the Capital Securities. This table should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this Offering Circular.

	As at 30 September 2013	
	Unaudited S$'000	**As Adjusted S$'000**
BORROWINGS		
Short-term borrowings (repayable within one year)	80,519	–
Long-term borrowings (repayable after one year)	1,177,725	958,244
Total borrowings	1,258,244	958,244
EQUITY		
Share capital	555,090	555,090
Capital Securities	–	300,000
Reserves	328,677	328,677
Equity attributable to owners of the Issuer	883,767	1,183,767
Non-controlling interests	3,088	3,088
Total equity	886,855	1,186,855
Total capitalisation and indebtedness	2,145,099	2,145,099

Note:

(1) For illustrative purposes, the Group has assumed that the gross proceeds from the issuance of the Capital Securities of $300,000,000 will be fully utilised to repay borrowings.

INVESTMENT CONSIDERATIONS

Prior to making an investment or divestment decision, prospective investors or existing holders of the Capital Securities should carefully consider all the information set forth in this Offering Circular 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 Capital Securities. 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 Capital Securities may be adversely affected.

Limitations of this Offering Circular

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

Neither this Offering Circular nor any document or information (or any part thereof) delivered or supplied under or in relation to the Offer or the Capital Securities (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 or the Sole Lead Manager and Bookrunner that any recipient of this Offering Circular or any such other document or information (or such part thereof) should subscribe for or purchase or sell any of the Capital Securities.

This Offering Circular is not, and does not purport to be, investment advice. A prospective investor should make an investment in the Capital Securities only after it has determined that such investment is suitable for its investment objectives. Determining whether an investment in the Capital Securities 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 Offering Circular 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), the Sole Lead Manager and Bookrunner 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 Offering Circular contemplating subscribing for or purchasing or selling the Capital Securities should determine for itself the relevance of the information contained in this Offering Circular 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 Capital Securities 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 Capital Securities.

RISKS RELATING TO THE CAPITAL SECURITIES

Suitability of the Capital Securities.

The purchase of the Capital Securities involves certain risks including market risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk. Investors should ensure that they fully understand the nature of all these risks before making a decision to invest in the Capital Securities. Each potential investor in the Capital Securities must also 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 Capital Securities, the merits and risks of investing in the Capital Securities and the information contained in this Offering Circular;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Capital Securities 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 Capital Securities;

- understand thoroughly the terms of the Capital Securities; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Capital Securities are complex financial instruments. A potential investor should not invest in the Capital Securities which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Capital Securities will perform under changing conditions, the resulting effects on the value of such Capital Securities and the impact this investment will have on the potential investor's overall investment portfolio.

This Offering Circular is not and does not purport to be investment advice. Investors should conduct such independent investigation and analysis regarding the Capital Securities as they deem appropriate. Investors should also consult their own legal, tax, accounting, financial and other professional advisers to assist them in determining the suitability of the Capital Securities for them as an investment. Investors should make an investment only after they have determined that such investment is suitable for their financial investment objectives. Investors should consider carefully whether the Capital Securities are suitable for them in light of their experience, objectives, financial position and other relevant circumstances.

The Capital Securities are perpetual securities and investors have no right to require redemption.

The Capital Securities are perpetual and have no maturity date. The Issuer is under no obligation to redeem the Capital Securities at any time and the Capital Securities can only be disposed of by sale. Holders who wish to sell their Capital Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Capital Securities.

The Issuer's obligations under the Capital Securities are subordinated.

The obligations of the Issuer under the Capital Securities will constitute unsecured and subordinated obligations of the Issuer. In the event that an order is made or an effective resolution is passed for the winding-up of the Issuer, the rights and claims of the Holders to receive payments in respect of the Capital Securities will (subject to and to the extent permitted by applicable law) rank senior to the rights and claims of holders of Junior Obligations and *pari passu* with the rights and claims of any Parity Creditors or holders of Parity Obligations, but junior to the rights and claims of all other creditors.

In the event of a shortfall of funds on a winding-up of the Issuer, there is a real risk that an investor in the Capital Securities will lose all or some of its investment and will not receive a full return of the principal amount or any unpaid amounts due under the Capital Securities.

In addition, there is no restriction on the amount of securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the Capital Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders in the event that an order is made or an effective resolution is passed for the winding-up of the Issuer and/or may increase the likelihood of a deferral of Distribution under the Capital Securities.

Holders may be subject to Singapore taxation.

The Capital Securities are intended by the Issuer to be "qualifying debt securities" for the purposes of the ITA, subject to the fulfilment of certain conditions more particularly described in the section entitled "Singapore Taxation". However, there is no assurance that such Capital Securities will and/or will continue to enjoy the tax concessions should the relevant tax laws be amended or revoked at any time or in the event that the IRAS does not regard the Capital Securities as debt securities for Singapore income tax purposes.

An advance tax ruling will be requested from the IRAS to confirm, amongst other things, whether the IRAS would regard the Capital Securities as "debt securities" for the purposes of the ITA, and the Distributions (including Arrears of Distribution and any Additional Distribution Amounts) as interest payable on indebtedness such that Holders may enjoy the tax concessions and exemptions available for qualifying debt securities under the qualifying debt securities scheme, as set out in the section "Singapore Taxation", provided that the relevant conditions are met. Should the IRAS, in giving its confirmation, impose additional tax disclosure requirements on the Issuer or other conditions and the Issuer decides, in its sole and absolute discretion, not to comply with these additional tax disclosure requirements or conditions, the Capital Securities may not be regarded as qualifying debt securities and Holders thereof may not be eligible for the tax exemption or concessionary tax rates under the qualifying debt securities scheme.

There is no guarantee that the IRAS will rule that the Capital Securities are debt securities. If the IRAS rules that the Capital Securities are not debt securities for the purposes of the ITA, the tax treatment to Holders may differ, as set out in the section "Singapore Taxation".

IRAS may disallow tax deduction on Distribution payments by the Issuer under the Capital Securities.

The Singapore income tax treatment of the Capital Securities as described in the section entitled "Singapore Taxation" is subject to the agreement of the IRAS. The IRAS may instead regard the Capital Securities to be an equity instrument for Singapore income tax purposes.

In the event that the Capital Securities are regarded as an equity instrument and Distributions (including Arrears of Distribution) from the Capital Securities are regarded as dividends for Singapore income tax purposes, no tax deduction of the Distributions (including Arrears of Distribution and possibly the Additional Distribution Amounts as well) payable on the Capital Securities shall be allowed to the Issuer. From a Holder's perspective, the Distributions (or Arrears of Distribution where applicable) declared by the Issuer shall be regarded as a 1-Tier tax exempt dividend and shall be exempted from Singapore income tax, subject to the Issuer having sufficient retained earnings to fund the dividend distributions and provided that at the point of dividend declaration, the Issuer continues to be a tax resident company for Singapore income tax purposes. Notwithstanding the foregoing, the Additional Distribution Amounts shall still be regarded as interest for Singapore income tax purposes and taxable at the Holders' applicable tax or withholding tax rates and the tax concession / exemption for qualifying debt securities would not be applicable.

No assurance, warranty, or guarantee is given on the tax treatment to Holders in respect of the Distributions (including Arrears of Distribution and Additional Distribution Amounts) payable to them. Holders should therefore consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding and disposal of the Capital Securities.

For further details of the tax treatment of the Capital Securities, see the section entitled "Singapore Taxation".

Holders may not receive Distribution payments if the Issuer elects to defer Distribution payments under the Terms and Conditions.

The Issuer may, at its sole discretion and subject to certain conditions, elect to defer any scheduled Distribution on the Capital Securities for any period of time and such deferred Distribution shall constitute Arrears of Distribution. The Issuer is subject to certain restrictions in relation to the payment of dividends on its Junior Obligations and the redemption and repurchase of its Junior Obligations until all Arrears of Distribution are satisfied. The Issuer is not subject to any limits as to the number of times Distributions can be deferred pursuant to the Terms and Conditions, subject to compliance with certain restrictions. The Issuer may defer the payment of Distributions for an indefinite period of time by delivering the relevant deferral notices to the Holders although Arrears of Distributions are cumulative, subject to the Terms and Conditions. Any such deferral of Distribution shall not constitute a default for any purpose unless, in the case of a deferral, such payment is required in accordance with Condition 4 (*Distribution Deferral*).

Any deferral of Distribution will likely have an adverse effect on the market price of the Capital Securities. In addition, as a result of the Distribution deferral provision of the Capital Securities, the market price of the Capital Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Group's financial condition.

The Capital Securities may be redeemed at the Issuer's option on the Step-Up Date or on any Distribution Payment Date thereafter, or on certain dates on the occurrence of certain other events.

The Terms and Conditions provide that the Capital Securities are redeemable at the Issuer's option, in whole or in part, on the Step-Up Date or on any Distribution Payment Date thereafter at their principal amount, together with Distributions accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount, if applicable), on the Issuer giving not less than 30 nor more than 60 days' notice to the Holders and the Trustee (which notice shall be irrevocable).

In addition, the Issuer also has the right to redeem the Capital Securities, in whole or in part, at their principal amount, together with Distributions accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount, if applicable), if (i) a Tax Event has occurred and is continuing, (ii) an Accounting Event has occurred and is continuing, or (iii) a Tax Deductibility Event has occurred and is continuing.

The date on which the Issuer elects to redeem the Capital Securities may not accord with the preference of individual Holders. This may be disadvantageous to Holders in light of market conditions or the individual circumstances of the Holder of Capital Securities. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Capital Securities.

There are limited remedies for non-payment under the Terms and Conditions.

Any scheduled Distribution will not be due if the Issuer elects to defer that Distribution pursuant to the Terms and Conditions. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute winding-up proceedings is limited to circumstances where payment under the Capital Securities has become due in accordance with the Terms and Conditions and the Issuer fails to make the payment when due. The only remedy against the Issuer available to any Holder for recovery of amounts in respect of the Capital Securities following the occurrence of a payment default after any sum becomes due in respect of the Capital Securities will be instituting winding-up proceedings and/or proving and/or claiming in winding-up in respect of any of the Issuer's payment obligations arising from the Capital Securities.

No prior market for and limited liquidity of the Capital Securities.

The Capital Securities comprise a new issue of securities for which there is currently no established secondary market. There can therefore be no assurance that a secondary market will develop or, if a secondary market does develop, as to the liquidity of that market for the Capital Securities or that it will continue for the entire tenure of the Capital Securities. Furthermore, there can be no assurance as to the ability of investors to sell, or the prices at which investors would be able to sell, their Capital Securities.

There can be no assurance regarding the development after the Issue Date of a market for the Capital Securities issued or the ability of the Holders, or the price at which the Holders may be able, to sell their Capital Securities.

The Issuer may raise other capital which affects the price of the Capital Securities.

The Issuer may raise additional capital through the issue of other securities or other means. There is no restriction, contractual or otherwise, on the amount of securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the Capital Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders on a winding-up or may increase the likelihood of a deferral of Distributions under the Capital Securities. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Capital Securities and/or the ability of Holders to sell their Capital Securities.

The market value of the Capital Securities may be subject to fluctuation.

Trading prices of the Capital Securities may be influenced by numerous factors, including (i) the market for similar securities, (ii) the respective operating results and/or financial conditions of the Group and (iii) political, economic, financial and any other factors that can affect the capital markets, the industry and the Group. Adverse economic developments in Singapore as well as countries in which the Group operates or has business dealings could have a material adverse effect on the operating results and/or the financial condition of the Group and the market value of the Capital Securities. As a result, the market price of the Capital Securities may be above or below the Issue Price.

An investment in the Capital Securities is subject to inflation risk.

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

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Capital Securities are legal investments for it, (ii) the Capital Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Capital Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Capital Securities under any applicable risk-based capital or similar rules.

The Capital Securities are structurally subordinated to any and all existing and future liabilities and obligations of the Issuer's subsidiaries, associated companies and joint ventures.

Most of the Issuer's assets are shareholdings (direct and indirect) in its subsidiaries, associated companies and joint ventures. Both the timing and the ability of certain subsidiaries, associated companies and joint ventures to pay dividends may be constrained by applicable laws. In the event that the Issuer's subsidiaries, associated companies and joint ventures do not pay any dividends or do so irregularly, the Group's cash flow may be adversely affected.

As a result of the holding company structure of the Group, the Capital Securities are structurally subordinated to any and all existing and future liabilities and obligations of the Issuer's subsidiaries, associated companies and joint ventures. Generally, claims of creditors, including trade creditors, of such companies will have priority with respect to the assets and earnings of such companies over the claims of the Issuer and its creditors, including the Holders to the extent that amounts are due and payable under the Capital Securities. For the avoidance of doubt, the Capital Securities will rank *pari passu* with the S$400,000,000 6 per cent cumulative non-convertible non-voting perpetual Class A preference shares issued by the Issuer. The Capital Securities will not be guaranteed.

Modification and waivers.

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

The Terms and Conditions also provide that the Trustee may, without the consent of Holders, agree to any modification of the Trust Deed which is, subject to the Terms and Conditions, in the opinion of the Trustee not materially prejudicial to the interests of the Holders or which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of Singapore law or is required by CDP and/or any other clearing system in which the Capital Securities may be held.

Consequences of non-availability of definitive certificates in respect of the Capital Securities.

The Capital Securities will be in the form of a Global Certificate, and no definitive certificates will be issued under any circumstances unless (i) a winding-up (as defined in the section entitled "Terms and Conditions of the Capital Securities") of the Issuer has occurred, (ii) CDP has closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise), (iii) CDP has announced its intention to permanently cease business and no alternative clearing system is available, or (iv) CDP has notified the Issuer that it is unable or unwilling to act as depository for the Capital Securities and to continue performing its duties and no alternative clearing system is available. **Individual Holders must hold their Capital Securities in a direct securities account with CDP or a securities sub-account and/or investment account with a Depository Agent.** See the section entitled "Clearing and Settlement" of this Offering Circular for further details. An investor's ability to pledge his interest in the Capital Securities to any person or otherwise to take action in respect of his interest may be affected by the lack of any definitive certificates.

The standard terms and conditions of the securities sub-account and/or investment account of a Depository Agent (as defined in the section entitled "Clearing and Settlement") may permit it to take a security interest in, or to impose other restrictions on, the Capital Securities credited to the account or to exercise a lien, right of set-off or similar claim against investors in respect of moneys held in any of an investor's accounts maintained with it to secure any amounts which may be owing by such investor to it.

So long as the Capital Securities are represented by the Global Certificate and held in its entirety on behalf of CDP, notices that are required to be given to the Holders will only be valid if despatched by prepaid registered post (by airmail if to another country) to persons who are for the time being shown in the records of CDP as the holders of the Capital Securities or if the rules of CDP so permit, delivered to CDP for communication by it to the Holders. The Issuer will request for a list of such holders and send notices directly to them. Such notices shall be deemed to have been given to the Holders on the fourth day after the date of despatch to the holders of Capital Securities or, as the case may be, on the fourth day after the date of delivery of the notice to CDP.

Where the Capital Securities are held by an investor in a securities sub-account with a Depository Agent, such investor will have to rely on his Depository Agent to distribute notices to him which it receives from the Issuer. The Issuer, the Sole Lead Manager and Bookrunner, the Trustee, the Registrar, the Paying Agent and the Calculation Agent accept no responsibility for any failure or delay on the part of the Depository Agents in doing so.

For so long as the Capital Securities are represented by the Global Certificate held through CDP, the Issuer will discharge its payment obligations under the Capital Securities by making payments to or to the order of CDP for distribution to their account holders and each person who is for the time being shown in the records of CDP as the holder of a particular principal amount of such Capital Securities shall be treated as the holder of that principal amount of Capital Securities for all purposes other than with respect to the payment of principal or interest on such principal amount in respect of the Capital Securities. Where the Capital Securities are held by an investor in his direct securities account with CDP, payments in respect of the Capital Securities will be credited through CDP from the Issuer. Where the Capital Securities are held by an investor in a securities sub-account and/or investment account with a Depository Agent, the investor will have to rely on his Depository Agent to credit his account with payments. The Issuer, the Sole Lead Manager and Bookrunner, the Trustee, the Registrar, the Paying Agent and the Calculation Agent accept no responsibility for any failure or delay on the part of the Depository Agents in performing their contractual duties to investors.

Holders of beneficial interests in the Global Certificate will not have a direct right under the Global Certificate to take enforcement action against the Issuer except in certain limited circumstances in respect of the Capital Securities and will have to rely upon their rights under the Trust Deed.

Global financial turmoil has led to volatility in international capital markets which may adversely affect the market price of the Capital Securities.

The global financial turmoil has resulted in substantial and continuing volatility in international capital markets. Any further deterioration in global financial conditions could have a material adverse effect on worldwide financial markets (including Singapore), which may adversely affect the market price of the Capital Securities.

Prospective investors should ensure that they have sufficient knowledge and awareness of the global financial turmoil and the economic situation and outlook as they consider necessary to enable them to make their own evaluation of the risks and merits of an investment in the Capital Securities. In particular, prospective investors should take into account the considerable uncertainty as to how the global financial turmoil and the wider economic situation will develop over time.

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

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.

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.

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 in the MENA region as at the Latest Practicable Date is a collaborative effort for the construction, operation and maintenance of a 500,000m^3/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.

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 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 an infectious and/or communicable disease, 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.

The Group may engage in hedging transactions, which can limit gains and may not be able to fully reduce 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 and/or capital 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 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 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 Ooi Lin, Executive Chairman & Group Chief Executive Officer, Mr Gary Kee Eng Kwee, Executive Director, Corporate Finance, Ms Winnifred Heap, Group Senior Executive Vice President & Chief Executive Officer, India, Ms Lim Suat Wah, Group Executive Vice President & Group Chief Financial Officer, Mr Wong Lup Wai, Group Executive Vice President & Group Chief Operating Officer, Mr Oon Jin Teik, Group Executive Vice President, Mr Zhao Qing, Senior Managing Director & Chief Executive Officer, China, Mr Peter Wu, Group Senior Managing Director, Ms Zhao Ping, Group Senior Managing Director & Chief Executive Officer, Galaxy Newspring, and Mr Kum Mun Lock, Senior Managing Director. 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 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 RO membranes, which are essential to the operations 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 prices charged to the Group for these services or supplies would adversely and materially affect the Group's operations, business and financial condition.

The Group is a new entrant to the power business.

The Group's new seawater desalination plant in Tuas, Singapore integrates an on-site 411 megawatt combined cycle gas turbine power plant that will supply electricity to the desalination plant and to the National Electricity Market of Singapore. As the power business is a new business to the Group, the Group has entered into contracts with contractors, suppliers and operators in respect of such power plant and has only just begun to build its own team with domain expertise in the energy sector. If any of the Group's counterparties fails to perform its obligations or if the credit-worthiness of any of these counterparties deteriorates, the operations of the power plant may be materially and adversely affected, which may in turn cause the Group's operations, business and financial condition to be materially and adversely affected.

The Group may require additional funding in the future due to the capital intensive nature of its business.

The Group's business, and the projects carried out by it, are capital intensive in nature. The Group generally finances its projects by obtaining long term limited or non-recourse financing, by entering into strategic JVs with partners who will co-finance these projects, or by the divestment of assets. To the extent that the funds generated from these financing strategies are exhausted, the Group may need to obtain additional funding (through bank borrowings or from the debt or equity capital markets) to finance these projects.

The Group may also, from time to time, come across and pursue business opportunities that the Group considers to be favourable for its future growth and prospects. To the extent that funds generated from its operations have been exhausted, the Group may need to obtain additional funding (through bank borrowings or from the debt or equity capital markets) to finance such opportunities.

The Group's working capital and capital expenditure needs may also vary materially from those presently planned and this may also result in the need for substantial new capital or funding.

Further debt financing may, apart from increasing the Group's gearing and interest expense, contain covenants that require the creation of security interests over assets or limit the Group's flexibility in its operations or financing activities. Such covenants may include negative pledges, restrictions on indebtedness, maintenance of certain financial ratios, restrictions on declaring dividends and making distributions and prohibition of amendments to material documents, amongst others. Breach of these covenants could result in defaults under the relevant financing instruments. If the Group defaults under its financing instruments and is unable to cure the default or obtain refinancing on favourable terms, there may be a material adverse effect on the Group's financial position, results of operations, cash flows and prospects.

Additionally, there can be no assurance that the Group will be able to obtain any additional funding at commercially reasonable terms, or at all. The failure to obtain adequate or additional funding in the future may adversely affect the Group's results of operations and financial performance and may limit the expansion and growth of the Group's business.

The Group is exposed to credit risks from and defaults in payments by its customers.

The financial position and profitability of the Group are dependent, to a certain extent, on the creditworthiness of its customers. Any material default by the Group's major customers may adversely affect the Group's financial position, profitability and cash flow. The Group may also face uncertainties over the timeliness of its customers' payments and their ability to pay. The customers' ability to pay may be affected by circumstances or events that are difficult to foresee or anticipate, such as a decline in their business or an economic downturn. Hence, there is no assurance that the Group will be able to collect its trade debts fully or within a reasonable period of time and this could adversely affect the Group as a whole.

In particular, a significant portion of the Group's revenue is derived from municipal projects, and the Group is exposed to a concentration of credit risk with respect to the counterparties of these projects. Financial difficulties or political upheavals faced by such customers may have a material adverse effect on the Group's business and prospects, as the Group may lose the ability to collect outstanding receivables from these customers.

There is no assurance that the Group's customers will not default on their payments. In the event that any of the Group's key customers shall default on their payments, and to the extent that the Group is not covered by insurance for such defaults, bad debts written off will increase. This will in turn have an adverse impact on the Group's financial performance as a whole and its prospects.

USE OF PROCEEDS

The net proceeds arising from the issue of the Capital Securities under the Offer (after deducting issue expenses) will be used for the Group's investments, for the repayment of existing borrowings, for general working capital, and for general corporate purposes.

CLEARING AND SETTLEMENT

Clearance and Settlement under the Depository System

In respect of the Capital Securities which are accepted for clearance by CDP, clearance will be effected through an electronic book-entry clearance and settlement system for the trading of debt securities ("**Depository System**") maintained by 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 the Capital Securities which are accepted for clearance by CDP, the entire issue of the Capital Securities is to be held by CDP in the form of the Global Certificate for persons holding the Capital Securities in securities accounts with CDP ("**Depositors**"). Delivery and transfer of the Capital Securities 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 market 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 Capital Securities 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 Capital Securities in such securities sub-accounts for themselves and their clients. Accordingly, the Capital Securities 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 Capital Securities in direct securities accounts with CDP, and who wish to trade such Capital Securities through the Depository System, must transfer such Capital Securities to be traded from such direct securities accounts to a securities sub-account with a Depository Agent for trade settlement.

General

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 interests and repayment of principal on behalf of issuers of debt securities. Although CDP has established procedures to facilitate transfer of interests in the Capital Securities 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 Sole Lead Manager and Bookrunner, the Agents or any other agent will have the responsibility for the performance by CDP of its obligations under the rules and procedures governing its operations.

SINGAPORE TAXATION

The discussion herein is not intended to constitute a complete analysis of all tax consequences relating to ownership of the Capital Securities and the tax treatment described herein is subject to the agreement of the IRAS. Prospective purchasers of the Capital Securities should consult their own tax advisers concerning the tax consequences of their particular situations as well as any consequences of the purchase, ownership and disposition of the Capital Securities arising under the laws of any other taxing jurisdictions. This description is based on current laws, regulations and interpretations. These laws, regulations and interpretations, however, may change at any time, and any change could be retrospective to the date of issuance of the Capital Securities. These laws and regulations 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.

The statements made herein regarding taxation are general in nature and based on certain aspects of the current tax laws of Singapore and administrative guidelines issued by the relevant authorities in force as of the date of this Offering Circular and are subject to any changes in such laws or administrative guidelines, or in the interpretation of these laws or guidelines, occurring after such date, which changes could be made on a retrospective basis. These laws and guidelines are also subject to various interpretations and the Singapore tax authorities or courts could later disagree with the explanations or conclusions set out below. The statements below are not to be regarded as advice on the tax position of any holder of the Capital Securities or of any person acquiring, selling or otherwise dealing with the Capital Securities or on any tax implications arising from the acquisition, sale or other dealings in respect of the Capital Securities.

The statements made herein do not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Capital Securities and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules. Prospective investors are advised to consult their own tax advisers as to the Singapore or other tax consequences of the acquisition, ownership of or disposition of the Capital Securities. It is emphasised that neither the Issuer, the Sole Lead Manager and Bookrunner nor any other persons involved in the issue of the Capital Securities accepts responsibility for any tax effects or liabilities resulting from the purchase, holding or disposal of the Capital Securities.

Recognition of the Capital Securities for Singapore income tax purposes

For all intents and purposes, the Capital Securities are legally regarded as a debt instrument. The Singapore income tax treatment should be aligned with its legal form and accordingly regarded as a debt instrument for tax purposes. Distributions (including Arrears of Distributions and any Additional Distribution Amounts) made by the Issuer under the Capital Securities (to the extent that it does not include any capital component and is economically akin to interest) should be regarded as interest for Singapore income tax purposes. This is subject to the agreement of the IRAS.

Where the IRAS disagrees with the above and regards the Capital Securities as an equity instrument instead, Distributions (including Arrears of Distribution) from the Capital Securities shall be regarded as dividend for Singapore income tax purposes.

Under such circumstances, no tax deduction of the Distributions (including Arrears of Distribution and possibly the Additional Distribution Amounts as well) payable on the Capital Securities shall be allowed to the Issuer. From a Holder's perspective, the Distributions (or Arrears of Distribution where applicable) declared by the Issuer shall be regarded as a 1-Tier tax exempt dividend and shall be exempted from Singapore income tax, subject to the Issuer having sufficient retained earnings to fund the dividend distributions and provided that at the point of dividend declaration, the Issuer continues to be a tax resident company for Singapore income tax purposes. Notwithstanding the foregoing, the Additional Distribution Amounts should still be regarded as interest for the Singapore income tax purposes and taxable at the Holders' applicable tax or withholding tax rates and the tax concession/ exemption for qualifying debt securities would not be available.

Distributions as payment of interest

*The comments below are based on the assumption that the IRAS regards the Capital Securities as "debt securities" for the purposes of the ITA, and Distributions (including Arrears of Distribution and Additional Distribution Amounts) as interest payable on indebtedness such that holders of the Capital Securities may enjoy the tax concessions and exemptions available for qualifying debt securities ("**QDS**") under the relevant provisions of the ITA, provided that the other conditions for the QDS scheme (as elaborated upon further below) are satisfied.*

Under Section 12(6) of the ITA, the following payments are deemed to be derived from Singapore:

(a) 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) income derived from loans where the funds provided by such loans are brought into or used in Singapore.

Such payments, where made to persons not known to the paying party to be a resident in Singapore for tax purposes, are subject to withholding tax in Singapore under the provisions of Section 45 or Section 45A of the ITA. The withholding tax rate applicable on such payments to non-resident persons (other than non-resident individuals) is 17.0%. The withholding tax rate will be reduced to 15.0% if such payment is derived by a person not resident in Singapore from sources other than from any trade, business, profession or vocation carried on or exercised by such person in Singapore and which is not effectively connected with any permanent establishment in Singapore of that person. The rates may be reduced by applicable tax treaties concluded by Singapore.

Notwithstanding the above, the following investment income derived from Singapore by any individual from financial instruments is exempt from tax:

(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 or 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.

The terms "break cost", "prepayment fee" and "redemption premium" are defined in Section 13(16) of 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.

Qualifying Debt Securities

In addition, subject to certain prescribed conditions being fulfilled, the Capital Securities shall qualify as "qualifying debt securities" for the purposes of the ITA.

On the premise that the IRAS accepts the Capital Securities as "debt securities" and Distributions (including Arrears of Distribution and Additional Distribution Amounts) as interest payable for indebtedness, for Singapore income tax purposes, and upon meeting all requisite conditions to qualify as qualifying debt securities, the following tax treatments will therefore apply:

(a) interest, discount, prepayment fee, redemption premium or break cost (collectively referred to as "**qualifying income**") from such Capital Securities, derived by a holder who is not resident in Singapore and:

(i) who does not have any permanent establishment in Singapore; or

(ii) who carries on any operation in Singapore through a permanent establishment in Singapore but the funds used by that person to acquire such Capital Securities are not obtained from such person's operation through a permanent establishment in Singapore,

is exempt from Singapore income tax. Where qualifying income is derived from the Capital Securities 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 will not apply if such person acquires the Capital Securities using funds from its Singapore operations;

(b) qualifying income on such Capital Securities derived by any company or body of persons (as defined in the ITA) in Singapore (other than companies accorded the Financial Sector Incentive — Standard Tier ("**FSI-ST**" award) Company Award and Financial Sector Incentive – Capital Market ("**FSI-CM**" award) Company Award) is subject to tax at a concessionary rate of 10.0%. Qualifying income derived by companies accorded the FSI-ST or FSI-CM award is subject to tax at a concessionary rate of 12.0% or 5.0% respectively; and

(c) qualifying income derived from the Capital Securities is not subject to Singapore withholding tax.

The Capital Securities are subject to the following conditions to be qualifying debt securities:

(a) the submission by the Issuer, or such other person as the Comptroller of Income Tax in Singapore (the "**Comptroller**") may direct, a return on debt securities for the Capital Securities within such period as the Comptroller may specify and such other particulars in connection with the Capital Securities as the Comptroller may require, to the MAS; and

(b) the inclusion by the Issuer, in all offering documents a statement to the effect that:

(i) where qualifying income is derived from any qualifying debt securities 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 will not apply if such person acquires such securities using funds from Singapore operations; and

(ii) where the qualifying income is not exempt from tax, the person deriving the qualifying income must include such income in his Singapore tax returns.

The term "**offering documents**" means the prospectuses, offering circulars, information memorandum, pricing supplements or other documents issued to investors in connection with an issue of securities.

However, notwithstanding the foregoing:

(a) if during the primary launch of the Capital Securities, the Capital Securities are issued to fewer than four persons and 50.0% or more of the issue of such Capital Securities is beneficially held or funded, directly or indirectly, by related parties of the Issuer, such Capital Securities would not (unless otherwise approved by the Minister of Finance or such person as he may appoint) qualify as qualifying debt securities; and

(b) even though the Capital Securities are qualifying debt securities at the time of issue, if at any time during the tenure of such Capital Securities, 50.0% or more of the issue of such Capital Securities is beneficially held or funded, directly or indirectly, by related party(ies) of the Issuer, the qualifying income derived from the Capital Securities held by:

   (i) any related party of the Issuer; or

   (ii) any person where the funds used by such person to acquire the Capital Securities are obtained, directly or indirectly, from any related party of the Issuer,

   shall not be eligible for the tax exemption or the 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.

It is to be noted that notwithstanding that the Issuer is permitted to pay the qualifying income in respect of the Capital Securities qualifying as qualifying debt securities without deduction or withholding for tax under Section 45 or Section 45A of the ITA, any person whose qualifying income derived from such Capital Securities is not exempt from tax is required to include such income in a return of income made under the ITA.

Distributions on the Capital Securities may be taxable, unless specifically exempted from tax under the ITA, in the hands of holders of the Capital Securities in the year the Distributions are due to them, irrespective of whether the Issuer has paid the Distributions due to them or not. In this regard, in the event that the Distributions are not payable in part or in full, on any Distribution Payment Date due to any deferral in accordance with the terms and conditions of the Capital Securities, holders of the Capital Securities should consult their accounting and tax advisers regarding the tax consequences to them of such non payment.

Gains on Disposal of Capital Securities

There is no capital gains tax in Singapore. Accordingly, any gains derived from a sale of the Capital Securities which are in the nature of capital will not be taxable in Singapore. However, any gains derived by any person from the sale of the Capital Securities may be construed to be of an income nature and subject to Singapore income tax, especially if they arise from activities which the IRAS would regard as carrying on a trade or business in Singapore.

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

Adoption of FRS 39 — Treatment for Singapore Income Tax Purposes

The IRAS has issued a circular dated 30 December 2005 (with the latest revision on 22 March 2010), entitled "Income Tax Implications arising from the adoption of Financial Reporting Standard 39 — Financial Instruments: Recognition and Measurement" (the "**Circular**"). Legislative amendments to give legislative effect to the Circular have been enacted in Section 34A of the ITA (the "**FRS 39 tax treatment**").

The Circular and Section 34A of the ITA generally apply, subject to certain "opt-out" provisions, to taxpayers who are required to comply with FRS 39 for financial reporting purposes.

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

SUBSCRIPTION, PURCHASE AND DISTRIBUTION

The Sole Lead Manager and Bookrunner has, pursuant to the Subscription Agreement, agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe and/or procure subscribers for the S$300,000,000 in aggregate principal amount of Capital Securities at the Issue Price.

United States

The Capital Securities 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 Capital Securities may not be offered or sold by the Sole Lead Manager and Bookrunner (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and each dealer to which the Capital Securities have been sold during the distribution compliance period has to be sent a confirmation or other notice setting forth the restrictions on offers and sales of the Capital Securities 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.

The Capital Securities are being offered and sold outside of the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Capital Securities, an offer or sale of the Capital Securities 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

The Sole Lead Manager and Bookrunner 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 Capital Securities 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 Capital Securities, 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 the Capital Securities 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

The Sole Lead Manager and Bookrunner has acknowledged that this Offering Circular has not been registered as a prospectus with the MAS. Accordingly, the Sole Lead Manager and Bookrunner has represented, warranted and agreed that it has not offered or sold any Capital Securities or caused the Capital Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell any Capital Securities or cause the Capital Securities 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 Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Capital Securities, 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

The Sole Lead Manager and Bookrunner understands that no action has been taken in any jurisdiction that would permit a public offering of any of the Capital Securities, or possession or distribution of this Offering Circular or any other document, in any country or jurisdiction (other than Singapore) where action for that purpose is required.

The Sole Lead Manager and Bookrunner 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 the Capital Securities or any interest therein or rights in respect thereof or has in its possession or distributes, any other document. The Sole Lead Manager and Bookrunner will not directly or indirectly offer, sell or deliver the Capital Securities 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 Offering Circular) 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 the Capital Securities 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 the Sole Lead Manager and Bookrunner of any Capital Securities or any interest therein or rights in respect thereof, the Issuer shall not have responsibility for, and the Sole Lead Manager and Bookrunner will obtain, any consent, approval or permission required in and the Sole Lead Manager and Bookrunner 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 Capital Securities 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.

APPENDIX I: 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	Executive Chairman and Group Chief Executive Officer
Mr Teo Kiang Kok	Lead 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 Simon Tay	Non-Executive Independent Director
Mr Gary Kee Eng Kwee	Executive Director, Corporate Finance

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

Ms Olivia Lum Ooi Lin

Executive Chairman and Group Chief Executive Officer

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. Managing the Group for more than 20 years now, Ms Lum is the driving force behind Hyflux's growth and business expansion, and is responsible for policy and strategy formulation and corporate direction.

A former Nominated Member of Singapore Parliament, Ms Lum is currently a member of the Singapore-Tianjin Economic & Trade Council, the Singapore-Jiangsu Cooperation Council, the Singapore-Zhejiang Economic & Trade Council, the Singapore-Oman Business Council and the Singapore Business Federation Council. She also sits on the board of International Enterprise Singapore.

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 the Ernst & Young World Entrepreneur of the Year 2011.

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

Mr Teo Kiang Kok

Lead Independent Director

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

Mr Teo was admitted to the Singapore bar in 1983. He was a partner of Shook Lin & Bok LLP ("**SLB**") from 1988 to 2011. Prior to joining SLB, he worked as an associate with Freshfields Bruckhaus Deringer, an international law firm, and as a corporate finance executive with Wardley Limited, 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 headed the Corporate & Corporate Finance and China practices of SLB. In his 29 years of legal practice, he has advised on securities offerings, mergers and acquisitions, joint ventures, strategic investments, as well as corporate law and regulatory compliance, particularly the listing and compliance requirements of companies listed on the SGX-ST. Mr Teo's regional practice included foreign investment work in and out of Singapore, the PRC, India and the ASEAN countries. He retired as a senior partner of SLB in May 2011 and was a consultant to SLB until May 2012.

Mr Lee Joo Hai

Non-Executive Independent Director

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

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

Mr Gay Chee Cheong

Non-Executive Independent Director

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

He sits on the Board of Governors of Temasek Polytechnic; the Entrepreneurship Committee at the National University of Singapore; the Board of Trustees of the United World College of South East Asia Foundation; the Board of Heliconia Capital Management Pte. Ltd.; and the Board of CapitaMall Trust Management Limited.

Mr Gay was the co-founder and 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, Sandhurst and the Royal Military College of Science, Shrivenham, United Kingdom. He holds Honours degrees in Electronics Engineering from the Royal Military College of Science, Shrivenham, United Kingdom, and in Economics from the University of London, United Kingdom. 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 since February 2005.

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

Previously Senior Vice President for Corporate Services at Hyflux, 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 Simon Tay

Non-Executive Independent Director

Mr Tay has been a Non-Executive Independent Director of Hyflux since May 2011. He is also a member of the Risk Management Committee.

He is a public intellectual as well as private advisor to major corporations and policymakers. He is concurrently Chairman of the Singapore Institute of International Affairs, the country's oldest think tank and founding member of the ASEAN network of think tanks, and an Associate Professor teaching international law at the National University of Singapore.

Mr Tay is also Senior Consultant at WongPartnership LLP, a leading Asian law firm with practices across the region. He serves on Toyota Corporation's Global Advisory Board and Far East Organization Group. Previously, he has been corporate advisor to Temasek Holdings, the Singapore government's investment firm. He has spoken at leading business conferences including the World Economic Forum, APEC CEO Summits and SIBOS, and briefed leading banks and major corporate boards.

From 1992 to 2008, he served in public positions in Singapore, including as Chairman of the National Environment Agency and reporting to the Minister, and a Nominated Member of Parliament.

Mr Gary Kee Eng Kwee

Executive Director, Corporate Finance

Mr Kee has been an Executive Director, Corporate Finance of Hyflux since May 2013. He is a member of the Risk Management and Investment Committees. As Executive Director, Corporate Finance, Mr Kee oversees the corporate finance, treasury, investments and information technology departments at Hyflux. Prior to his appointment as Executive Director, Corporate Finance, Mr Kee has been a Non-Executive Non-Independent Director of Hyflux since May 2011.

Mr Kee was the Chief Executive Officer of the Trustee-Manager 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, save for Ms Olivia Lum Ooi Lin who is a substantial shareholder of the Issuer, none of the Directors are substantial shareholders of the Issuer or are related to any such substantial shareholder.

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 2011 or the financial year ended 31 December 2012.

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	
	Number of Ordinary Shares	%	Number of Ordinary Shares	%
Olivia Lum Ooi Lin	267,351,211	32.33	–	–
Teo Kiang Kok	–	–	375,000 [(1)]	0.04
Gay Chee Cheong	1,000,000	0.12	–	–
Christopher Murugasu	1,095,468	0.13	180,000 [(2)]	0.02

Notes:

(1) Held through Citibank Nominees Singapore Pte Ltd.

(2) Mr Christopher Murugasu is deemed interested in the ordinary shares of the Issuer which are held by his spouse, Ms Bernadette Oei Lian Hua.

CLASS A CUMULATIVE PREFERENCE SHARES

Directors	Class A Cumulative Preference Shares			
	Direct Interest		Deemed Interest	
	Number of Class A Cumulative Preference Shares	%	Number of Class A Cumulative Preference Shares	%
Olivia Lum Ooi Lin	8,020	0.2	–	–
Teo Kiang Kok	3,000	0.075	–	–
Gay Chee Cheong	12,000	0.3	–	–
Christopher Murugasu	2,880 [(1)]	0.072	–	–

Note:

(1) Includes 1,880 Class A Cumulative Preference Shares which Mr Christopher Murugasu is holding in his capacity as executor and trustee for the estate of Ms Tang Hoong Yang nee Hong Sau Ching, deceased.

SUBSTANTIAL SHAREHOLDERS – ORDINARY SHARES

	Direct Interest	Deemed Interest	%
Olivia Lum Ooi Lin	267,351,211	–	32.33
Mondrian Investment Partners Limited	–	49,848,248 [(1)]	6.03
Matthews International Capital Management, LLC	–	67,535,030 [(2)]	8.17
Matthews International Funds	–	59,929,280 [(3)]	7.25

Notes:

(1) Mondrian Investment Partners Limited ("**Mondrian**") is a London-based discretionary investment manager. In respect of assets managed under investment management agreement(s) between Mondrian and its clients, various clients (in this regard) are the beneficial owners of holdings which are held in custody by the client's own appointed custodian.

(2) Shares held for the benefit of accounts managed by Matthews International Capital Management, LLC.

(3) The amount reported includes shares reported by Matthews International Capital Management, LLC which acts as Investment Advisor to the Matthews International Funds and its other clients

SHARE CAPITAL

5. As at the date of this Offering Circular, there is only one class of ordinary shares and two classes of preference shares (of which only Class A Cumulative Preference Shares have been issued) 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.

6. The issued share capital of the Issuer as at the Latest Practicable Date is as follows:

	Issued Share Capital	
Share Designation	**Number of Shares**	**Amount (S$)**
Ordinary Shares (including 37,146,000 treasury shares)	864,153,989	214,318,602.46
Class A Cumulative Preference Shares	4,000,000	400,000,000

BORROWINGS

7. Save as disclosed in Appendix V, the Group had as at 30 September 2013 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

8. After taking into account the present banking facilities and the net proceeds of the issue of the Capital Securities, the Issuer is expected to have adequate working capital for its present requirements.

CHANGES IN ACCOUNTING POLICIES

9. The Group has adopted the followings SFRSs from the financial period beginning 1 January 2013:

- SFRS 110 — Consolidated Financial Statements
- SFRS 111 — Joint Arrangements
- SFRS 112 — Disclosure of Interests of Other Entities
- Revised SFRS 27 — Separate Financial Statements
- Revised SFRS 28 — Investments in Associates and Joint Ventures

Prior to 1 January 2013, the Group accounted for its investments in joint arrangements using the proportionate consolidation method. Pursuant to the application of SFRS 111, all existing joint arrangements are classified as joint ventures and accounted for using the equity method.

Additionally, the Group adopted SFRS 1 - Presentation of Items of Other Comprehensive Income (Amendments to SFRS 1) which became effective for financial periods beginning on or after 1 July 2012. Upon adoption, the Group classified its other comprehensive income into items that (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

Save for the above, there has been no significant change in the accounting policies of the Issuer since its audited financial accounts for the year ended 31 December 2012.

LITIGATION

10. Save for the arbitration proceedings with Ashcraft Holdings Pte Ltd and Ningxia Hypow Bio-Technology Co., Ltd, which were first announced by the Issuer on 1 February 2011 and 28 February 2012 respectively, 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 Offering Circular a material adverse effect on the financial condition or business of the Issuer and its subsidiaries.

MATERIAL ADVERSE CHANGE

11. Save as disclosed in this Offering Circular, 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 2012.

CONSENTS

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

DOCUMENTS AVAILABLE FOR INSPECTION

13. Copies of the following documents may be inspected at the registered office of the Issuer at 80 Bendemeer Road, Hyflux Innovation Centre, Singapore 339949 during normal business hours for a period of six months from the date of this Offering Circular:

(a) the Memorandum and Articles of Association of the Issuer;

(b) the Trust Deed;

(c) the Agency Agreement;

(d) the Deed of Covenant;

(e) the audited accounts of the Issuer and its subsidiaries for the financial year ended 31 December 2012, the audited accounts of the Issuer and its subsidiaries for the financial year ended 31 December 2011, and the audited accounts of the Issuer and its subsidiaries for the financial year ended 31 December 2010; and

(f) the unaudited financial results of the Issuer and its subsidiaries for the third quarter ended 30 September 2013.

APPENDIX II: AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HYFLUX LTD AND ITS SUBSIDIARIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

The information in this Appendix II 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 Offering Circular.

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 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 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 $'000	2009 $'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		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	Group 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	Company 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 %	Ownership interest 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	Company 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 %	Ownership interest 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	2009	2010	2009
	$'000	$'000	$'000	$'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	2009
	$'000	$'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 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 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	Group 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 2010 $'000	Unearned finance income 2010 $'000	Present value of minimum lease payment receivables 2010 $'000	Minimum lease payment receivables 2009 $'000	Unearned finance income 2009 $'000	Present value of minimum lease payment receivables 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	2009	2010	2009
	$'000	$'000	$'000	$'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	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'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	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'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)
	3,461	35	15	3,511	20,348	(143)	308	24,024
Company								
Property, plant and equipment	95	(95)	–	–	–	–	–	–
Intangible assets	64	(64)	–	–	–	–	–	–
	159	(159)	–	–	–	–	–	–

15 GROSS AMOUNTS DUE FOR CONTRACT WORK

	Group 2010 $'000	Group 2009 $'000
Costs incurred and attributable profits	960,627	737,048
Progress billings	(706,158)	(617,054)
Gross amounts due for contract work	254,469	119,994

16 INVENTORIES

	Group 2010 $'000	Group 2009 $'000
Raw materials and consumables	13,456	21,384
Work in progress	10,896	7,546
Finished goods	1,909	3,567
	26,261	32,497

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 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 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 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 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 Face value $'000	2010 Carrying amount $'000	2009 Face value $'000	2009 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:

i. 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

ii. 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:

	Future minimum lease payments 2010 $'000	Interest 2010 $'000	Principal 2010 $'000	Future minimum lease payments 2009 $'000	Interest 2009 $'000	Principal 2009 $'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:

		Group		Company	
	Note	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: Contractual cash flows	Cash flows: Within 1 year	Cash flows: Between 1 and 5 years	Cash flows: More than 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)
	68,700	39,118
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)
	42,707	(34,558)

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 Carrying amount		Company Carrying amount	
	2010 $'000	2009 $'000	2010 $'000	2009 $'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.

	Profit before income tax	
Group	**75 bp increase $'000**	**75 bp decrease $'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 Carrying amount $'000	31 December 2010 Fair value $'000	31 December 2009 Carrying amount $'000	31 December 2009 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	Group 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 $'000	Group 2009 $'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 $'000	Group 2009 $'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 $'000	Group 2009 $'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 $'000	Group 2009 $'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

	Group 2010 $'000	Group 2009 $'000
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	Group 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	Group 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 $'000	Group 2009 $'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 $'000	Group 2009 $'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.

APPENDIX III: AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HYFLUX LTD AND ITS SUBSIDIARIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

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 2011 and has not been specifically prepared for inclusion in this Offering Circular.

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 2011, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 43 to 122.

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 balance sheets 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 2011 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
23 March 2012

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	Group		Company	
		2011	2010	2011	2010
		$'000	$'000	$'000	$'000
Non-current assets					
Property, plant and equipment	4	188,571	155,826	–	–
Intangible assets	5	43,876	62,075	–	1,779
Intangible assets arising from service concession arrangements	6	154,937	129,494	–	–
Investments in subsidiaries	7	–	–	169,420	119,820
Investments in joint venture	8	–	–	3,125	3,125
Investments in associates	9	108,887	75,032	13,704	13,320
Financial receivables	11	418,320	226,149	–	–
Trade and other receivables	12	15,552	15,816	445,312	16,924
Deferred tax assets	13	2,829	1,616	–	–
Total non-current assets		932,972	666,008	631,561	154,968
Current assets					
Gross amounts due for contract work	14	176,910	254,469	–	–
Inventories	15	24,195	26,261	–	–
Financial receivables	11	4,937	5,851	–	–
Trade and other receivables, including derivatives	12	231,093	182,398	729,141	608,382
Other investments	10	–	2,429	–	2,429
Cash and cash equivalents	16	662,358	222,286	96,407	65,656
Total current assets		1,099,493	693,694	825,548	676,467
Current liabilities					
Trade and other payables, including derivatives	17	227,840	210,038	135,567	73,480
Loans and borrowings	18	118,121	95,660	88,438	52,538
Tax payable		10,262	10,251	2,983	2,893
Total current liabilities		356,223	315,949	226,988	128,911
Net current assets		743,270	377,745	598,560	547,556
Non-current liabilities					
Loans and borrowings	18	712,301	503,606	573,811	443,668
Deferred tax liabilities	13	28,374	25,640	–	–
Total non-current liabilities		740,675	529,246	573,811	443,668
Net assets		935,567	514,507	656,310	258,856
Equity					
Share capital		604,740	207,474	604,740	207,474
Reserve for own shares		(4,461)	(1,292)	(4,461)	(1,292)
Capital reserve		6,467	4,752	796	–
Foreign currency translation reserve		3,635	(14,637)	–	–
Hedging reserve		(3,996)	(3,560)	–	–
Employees' share option reserve		19,647	18,609	19,647	18,609
Retained earnings		294,559	291,155	35,588	34,065
Total equity attributable to owners of the Company		920,591	502,501	656,310	258,856
Non-controlling interests		14,976	12,006	–	–
Total equity	19	935,567	514,507	656,310	258,856

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

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2011

	Note	2011 $'000	2010 $'000
Revenue	22	481,975	569,737
Other income		8,064	6,855
Changes in inventories of finished goods and work-in-progress		(408)	2,641
Raw materials and consumables used and subcontractors' cost		(259,473)	(302,961)
Staff costs		(60,040)	(65,408)
Depreciation, amortisation and impairment		(36,637)	(27,501)
Other expenses		(50,067)	(68,089)
Finance costs	23	(22,597)	(16,760)
Share of profit of associates, net of income tax		1,226	1,959
Profit before income tax	24	62,043	100,473
Tax expense	25	(6,318)	(11,588)
Profit for the year		55,725	88,885
Profit attributable to:			
Owners of the Company		53,027	88,510
Non-controlling interests		2,698	375
Profit for the year		55,725	88,885
Earnings per share (cents)			
Basic earnings per share	26	4.30	10.52
Diluted earnings per share	26	4.28	10.23

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2011

	2011 $'000	2010 $'000
Profit for the year	55,725	88,885
Other comprehensive income		
Foreign currency translation differences for foreign operations	18,831	(20,310)
Share of hedging reserve of associates	342	424
Effective portion of changes in fair value of cash flow hedges	(778)	2,301
Net change in fair value of cash flow hedges transferred to profit or loss	–	431
Share of statutory reserve of associates	–	(102)
Other comprehensive income/(loss) for the year, net of income tax	18,395	(17,256)
Total comprehensive income for the year	74,120	71,629
Total comprehensive income attributable to:		
Owners of the Company	70,863	72,384
Non-controlling interests	3,257	(755)
Total comprehensive income for the year	74,120	71,629

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2011

	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 owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
Group										
At 1 January 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 year										
Profit for the year	–	–	–	–	–	–	53,027	53,027	2,698	55,725
Other comprehensive income										
Foreign currency translation differences for foreign operations	–	–	–	18,272	–	–	–	18,272	559	18,831
Share of hedging reserve of associates	–	–	–	–	342	–	–	342	–	342
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(778)	–	–	(778)	–	(778)
Total comprehensive income/(loss) for the year	–	–	–	18,272	(436)	–	53,027	70,863	3,257	74,120

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)

YEAR ENDED 31 DECEMBER 2011

	Share capital	Reserve for own shares	Capital reserve	Foreign currency translation reserve	Hedging reserve	Employees' share option reserve	Retained earnings	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Group										
Transactions with owners, recognised directly in equity										
Contributions by and distributions to owners										
Issue of shares for cash under Employees' Share Option Scheme	4,697	–	–	–	–	–	–	4,697	–	4,697
Issue of Class A Cumulative Perpetual Preference Shares (CPS)	392,569	–	–	–	–	–	–	392,569	–	392,569
Own shares acquired	–	(3,169)	–	–	–	–	–	(3,169)	–	(3,169)
Value of employee services received for issue of share options	–	–	–	–	–	1,038	–	1,038	–	1,038
Transfer to capital reserve	–	–	1,715	–	–	–	(1,715)	–	–	–
Capital contributions from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	50	50
Liquidation of subsidiaries	–	–	–	–	–	–	–	–	(337)	(337)
Dividends declared	–	–	–	–	–	–	(47,908)	(47,908)	–	(47,908)
Total transactions with owners	397,266	(3,169)	1,715	–	–	1,038	(49,623)	347,227	(287)	346,940
At 31 December 2011	604,740	(4,461)	6,467	3,635	(3,996)	19,647	294,559	920,591	14,976	935,567

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)

YEAR ENDED 31 DECEMBER 2011

	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 owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
Group										
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 hedging reserve 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 statutory 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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)

YEAR ENDED 31 DECEMBER 2011

	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 owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
Group										
Transactions with owners, recognised 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 declared	–	–	–	–	–	–	(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 CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER 2011

	Note	2011 $'000	2010 $'000
Cash flows from operating activities			
Profit before income tax		62,043	100,473
Adjustments for:			
Allowance for inventory obsolescence	15	113	1,412
Depreciation, amortisation and impairment		36,637	27,501
Employees' share option expense		1,038	1,829
Fair value loss/(gain) on derivative financial instruments		594	(754)
Finance costs		22,597	16,760
Financial receivables written off		3,056	–
Gain on liquidation of subsidiaries		(296)	–
Gain on sale of investment property		–	(1,186)
(Gain)/loss on sale of property, plant and equipment		(11,899)	380
Impairment of investments		–	264
Impairment of trade and other receivables		2,889	1,526
Intangible assets written off		25	–
Interest income		(3,041)	(3,125)
Remeasurement to fair value of an associate to joint venture		–	(22,787)
Share of profit of associates, net of income tax		(1,226)	(1,959)
		112,530	120,334
Change in inventories		1,576	4,840
Change in gross amounts due for contract work		75,747	(134,475)
Change in trade and other receivables		(49,861)	10,154
Change in trade and other payables		25,595	(53,448)
Cash from/(used in) operating activities before service concession arrangement projects		165,587	(52,595)
Change in financial receivables from service concession arrangements		(194,308)	7,142
Change in intangible assets arising from service concession arrangements		(20,052)	4,291
Cash used in operating activities after service concession arrangement projects		(48,773)	(41,162)
Income tax paid		(7,373)	(8,305)
Net cash used in operating activities		(56,146)	(49,467)

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

CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

YEAR ENDED 31 DECEMBER 2011

	Note	2011 $'000	2010 $'000
Cash flows from investing activities			
Acquisition of a joint venture, net of cash acquired	28	–	(27,212)
Acquisition of intangible assets		(5,094)	(12,858)
Acquisition of non-controlling interests	28	–	(20,491)
Acquisition of property, plant and equipment	4	(53,366)	(28,111)
Additional investment in an associate		(33,079)	(23,691)
Capital contribution from non-controlling interests of a subsidiary		50	–
Change in amounts due from related parties (non-trade)		(427)	1,955
Dividends received from associates		1,470	10,179
Interest received		2,657	2,760
Investment in available-for-sale money market instrument		–	(2,429)
Net cash outflow from liquidation of subsidiaries		(178)	–
Proceeds from sale of investment property		–	3,237
Proceeds from sale of other investments		2,429	–
Proceeds from sale of property, plant and equipment		26,280	937
Net cash used in investing activities		(59,258)	(95,724)
Cash flows from financing activities			
Dividends paid to equity holders of the Company		(47,908)	(34,222)
Decrease/(increase) in deposits pledged		204	(204)
Interest paid		(17,702)	(16,297)
Net proceeds from CPS issue		392,569	–
Payment of finance lease liabilities		–	(73)
Proceeds from borrowings		605,085	383,447
Proceeds from exercise of share options and warrants		4,697	102,360
Purchases of treasury shares		(3,169)	–
Repayment of borrowings		(399,125)	(221,832)
Net cash from financing activities		534,651	213,179
Net increase in cash and cash equivalents		419,247	67,988
Cash and cash equivalents at 1 January		222,082	166,735
Effect of exchange rate fluctuations on cash held		86	(12,641)
Cash and cash equivalents at 31 December	16	641,415	222,082

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 23 March 2012.

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 financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the Group and individually as Group entities) and the Group's interests in associates and joint ventures.

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 the 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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, US dollars 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 are included in the following notes:

- Note 4 – residual values and useful lives of property, plant and equipment;
- Note 5 – useful lives and recoverability of intangible assets;
- Notes 4 and 5 – key assumptions used in discounted cash flow projections;
- Note 21 – recoverability of trade and other receivables; and
- Note 33 – contingencies.

2.5 Changes in accounting policies

Overview

On the adoption of new and revised FRSs as of 1 January 2011, the Group changed its accounting policies in the following areas:

(i) Measurement of non-controlling interests in business combinations

From 1 January 2011, the Group has applied the amendments to FRS 103 *Business Combinations* resulting from the *Improvements to FRSs 2010* in measuring at the acquisition date, non-controlling interests that are not present ownership interests and do not entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Such non-controlling interests are now measured at fair value (see note 3.1).

Previously, the Group has elected on a transaction-by-transaction basis whether to measure non-controlling interests that are not present ownership interests and do not entitle holders to proportionate share of the acquiree's net assets on liquidation at fair value, or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the acquisition date.

This change in accounting policy has been applied prospectively to new business combinations occurring on or after 1 January 2011 and has no material impact on earnings per share.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2 BASIS OF PREPARATION (cont'd)

2.5 Changes in accounting policies (cont'd)

Overview (cont'd)

(ii) Identification of related party relationships and related party disclosures

From 1 January 2011, the Group has applied the revised FRS 24 *Related Party Disclosures* (2010) to identify parties that are related to the Group and to determine the disclosures to be made on transactions and outstanding balances, including commitments, between the Group and its related parties. FRS 24 (2010) improved the definition of a related party in order to eliminate inconsistencies and ensure symmetrical identification of relationships between two parties.

The adoption of FRS 24 (2010) affects only the disclosures made in the financial statements. There is no financial effect on the results and financial position of the Group for the current and previous financial years. Accordingly, the adoption of FRS 24 (2010) has no impact on earnings per share.

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.

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the Group elects on a transaction-by-transaction basis whether to measure them at fair value, or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the acquisition date. All other non-controlling interests are measured at acquisition-date fair value or, when applicable, on the basis specified in another standard.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Basis of consolidation (cont'd)

Business combinations (cont'd)

When share-based payment awards (replacement awards) are 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.

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.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies of these entities. 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 cost of investments includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income 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 zero, 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 associate.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Basis of consolidation (cont'd)

Acquisition of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore the carrying amounts of assets and liabilities are not changed and goodwill is not 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. Any difference between the adjustment to non-controlling interests and the fair value of consideration paid is recognised directly in equity and presented as part of equity attributable to owners of the Company.

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 end of the reporting date are retranslated 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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, or qualifying cash flow hedges, which are recognised in other comprehensive income.

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, excluding goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the end of the reporting date. The income and expenses of foreign operations 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 foreign 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 are considered to form part of a net investment in a foreign operation. These are recognised in other comprehensive income, and are presented as equity in the 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 (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date 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 classifies non-derivative financial assets into the following categories: 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 **SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

3.3 **Financial instruments** (cont'd)

Loans and receivables (cont'd)

Loans and receivables comprise cash and cash equivalents, trade and other receivables, financial receivables arising from service concession arrangements, and gross amounts due from contract work.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits.

For the purpose of the statement of cash flows, pledged deposits are excluded whilst bank overdrafts that are repayable in demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

Service concession arrangements

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, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration (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 or are not classified in any of the above categories of financial assets. The Group's investments in equity securities are classified as available-for-sale financial assets.

Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3.9) and foreign currency differences on available-for-sale debt instruments (see note 3.2), are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

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, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Financial instruments (cont'd)

Non-derivative financial liabilities (cont'd)

The Group classifies non-derivative financial liabilities into the other financial liabilities category. 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.

Other financial liabilities comprise loans and borrowings, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Intra-group financial guarantees

Financial guarantees are financial instruments issued by the Group that require the issuer to make specified payments to reimburse the holder for the loss it incurs 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 profit or loss.

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.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Board of Directors.

Repurchase, disposal and reissue 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 in the reserve for own share account. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Financial instruments (cont'd)

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

On initial designation of the derivative as the hedging instruments, 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 and the hedged risk, 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, of 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 attributable to the hedged risk, 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 profit or loss.

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. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases, the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

Separable embedded derivatives

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

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, 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, when the Group has an obligation to move the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Property, plant and equipment (cont'd)

Cost may also include transfers from equity 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.

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

Subsequent costs

The cost of replacing a component 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 component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component 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 based on the cost of an asset, less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component 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 years 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 ranging from 5 to 36 years
Furniture and fittings	-	4 to 5 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 earnings in the year of acquisition.

Goodwill and negative goodwill that have previously been taken to reserves are not taken to profit or loss 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.

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 earnings on 1 January 2005.

Acquisitions on or after 1 January 2005

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets and represents the excess of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Intangible assets (cont'd)

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.

Amortisation

Amortisation is calculated based on 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 years are as follows:

Intellectual property rights	-	10 years
Capitalised development costs	-	8 years
Licensing fees	-	10 to 20 years
Service concession arrangements	-	10 to 25 years

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Intangible assets (cont'd)

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period 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.

3.6 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 are not recognised in the Group's statement of financial position.

3.7 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 equity 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.

3.8 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 for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, the difference is presented as part of trade and other payables in the statement of financial position.

3.9 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Impairment (cont'd)

Loans and receivables

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

In assessing collective impairment, the Group uses historical trends of the probability of default, the 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 loans and 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.

Available-for-sale financial assets

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 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, then 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. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. 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 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 testing is performed 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Impairment (cont'd)

Non-financial assets (cont'd)

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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 CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) 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.

3.10 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 generally 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.

3.11 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.11 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.

3.12 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.

3.13 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.13 Revenue (cont'd)

Construction revenue - Construction contracts and sale of plants under service concession arrangements (cont'd)

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.

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 profit or loss 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 from funds invested (including available-for-sale financial assets) is recognised as it accrues as other income in profit or loss, using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.14 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.

3.15 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.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

3.16 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.

3.17 Tax

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:

- temporary differences on 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;

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.17 Tax (cont'd)

- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- 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.

In the ordinary course of business, there are many transactions and calculations for which the ultimate tax treatment is uncertain. Therefore, the Company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when the Company believes that certain positions may not be fully sustained upon review by tax authorities, despite the Company's belief that its tax return positions are supportable. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of multifaceted judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.18 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 year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees. Both basic and diluted EPS of the Group are adjusted for the effect of any provision for preference shares dividends.

3.19 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.

Segment results that are reported to the 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 tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.20 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 2011, 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 and the Company.

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 2010		38,817	3,129	10,630	2,275	46,777	1,715	59,864	163,207
Acquisitions through business combinations	28	–	–	–	–	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 and 1 January 2011		40,350	2,883	11,567	2,558	73,376	2,214	67,412	200,360
Additions		4,679	197	735	95	1,712	356	45,592	53,366
Transfers		10,202	(10)	715	45	4,767	(53)	(15,666)	–
Transfer from/(to) intangible assets	5	7,057	–	–	–	–	–	(89)	6,968
Disposals		(14,399)	(434)	(157)	(212)	(4,794)	(7)	(323)	(20,326)
Effect of movements in exchange rates		86	37	(155)	20	3,017	107	2,438	5,550
At 31 December 2011		47,975	2,673	12,705	2,506	78,078	2,617	99,364	245,918

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

4 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	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
Accumulated depreciation and impairment losses									
At 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 and 1 January 2011		17,201	1,557	7,614	1,695	10,402	1,109	4,956	44,534
Depreciation for the year		5,453	466	2,354	245	3,505	363	–	12,386
Disposals		(4,046)	(381)	(148)	(177)	(749)	(107)	–	(5,608)
Impairment loss		–	–	–	–	–	–	3,717	3,717
Transfer		–	(4)	–	(4)	–	8	–	–
Transfer from intangible assets	5	1,157	–	–	–	–	–	–	1,157
Effect of movements in exchange rates		5	23	(92)	10	1,200	15	–	1,161
At 31 December 2011		19,770	1,661	9,728	1,769	14,358	1,388	8,673	57,347
Carrying amounts									
At 1 January 2010		26,547	1,100	5,064	765	40,718	868	59,864	134,926
At 31 December 2010 and 1 January 2011		23,149	1,326	3,953	863	62,974	1,105	62,456	155,826
At 31 December 2011		28,205	1,012	2,977	737	63,720	1,229	90,691	188,571

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 2010, 31 December 2010, 1 January 2011 and 31 December 2011	1,018	11	1,029
Accumulated depreciation			
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	1,018	11	1,029
Carrying amounts			
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	–	–	–

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.

Impairment loss

In 2011, 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 2012. 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 2013 using a pre-tax discount rate of 11% (2011: 9%). Based on the assessment, the Group recognised an impairment loss of $3,717,000 (2010: $4,956,000). The production plant is included in the People's Republic of China Industrial CGU. See note 5 for the key assumptions used in determining the recoverable amount of the CGU.

Property, plant and equipment under construction

During the year, the Group has commenced construction of a new headquarter and research center, with costs capitalised up to the reporting date totalling $41,787,000 (2010: $4,261,000).

Included in the costs capitalised above is capitalised borrowing costs related to the acquisition of the land and the construction of the new premises amounting to $652,000 (2010: nil), with a capitalisation rate of 2.09% (2010: not applicable).

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 2010		14,188	4,755	50,491	8,716	78,150
Additions		–	161	–	–	161
Additions – internally developed		–	–	5,377	–	5,377
Acquisition through business combinations	28	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 and 1 January 2011		22,408	4,860	52,643	8,399	88,310
Additions		–	40	–	–	40
Disposal of subsidiaries to a joint venture		1,124	–	–	–	1,124
Additions – internally developed		–	–	3,930	–	3,930
Transfer to property, plant and equipment	4	–	–	(6,968)	–	(6,968)
Disposal		–	–	(147)	–	(147)
Effect of movements in exchange rates		–	2	(1)	(18)	(17)
At 31 December 2011		23,532	4,902	49,457	8,381	86,272
Accumulated amortisation and impairment losses						
At 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 and 1 January 2011		3,927	999	16,836	4,473	26,235
Amortisation for the year		–	59	5,130	324	5,513
Impairment loss		8,484	–	3,326	–	11,810
Disposal		–	–	(89)	–	(89)
Transfer to property, plant and equipment	4	–	–	(1,157)	–	(1,157)
Effect of movements in exchange rates		–	2	82	–	84
At 31 December 2011		12,411	1,060	24,128	4,797	42,396
Carrying amounts						
At 1 January 2010		12,663	3,865	39,260	5,956	61,744
At 31 December 2010 and 1 January 2011		18,481	3,861	35,807	3,926	62,075
At 31 December 2011		11,121	3,842	25,329	3,584	43,876

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 2010, 31 December 2010 and 1 January 2011	1,779	137	1,916
Disposals	(1,779)	(137)	(1,916)
At 31 December 2011	–	–	–
Accumulated amortisation			
At 1 January 2010	79	27	106
Amortisation for the year	17	14	31
At 31 December 2010 and 1 January 2011	96	41	137
Amortisation for the year	18	14	32
Disposals	(114)	(55)	(169)
At 31 December 2011	–	–	–
Carrying amounts			
At 1 January 2010	1,700	110	1,810
At 31 December 2010 and 1 January 2011	1,683	96	1,779
At 31 December 2011	–	–	–

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, $6,968,000 (2010: $3,162,000) 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

Annually, the management will perform specific review on the development projects to identify projects that no longer meet the recognition criteria set forth in the FRS.

Accordingly, in 2011, taking into consideration the changes in the Group's business plan, an impairment loss of $3,326,000 (2010: $834,000) was recognised in profit or loss although those projects were already into testing phase.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

5 INTANGIBLE ASSETS (cont'd)

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 27. The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	2011 $'000	2010 $'000
Singapore		
- Others	192	192
The Netherlands		
- Industrial	–	2,402
Kingdom of Saudi Arabia		
- Industrial	1,585	5,802
People's Republic of China		
- Industrial	–	1,865
- Municipal	9,344	8,220
	11,121	18,481

In 2011, following a management review of the business portfolio, impairment losses recognised in profit or loss were as follows:

	2011 $'000	2010 $'000
The Netherlands		
- Industrial	2,402	2,402
Kingdom of Saudi Arabia		
- Industrial	4,217	–
People's Republic of China		
- Industrial	1,865	–
	8,484	2,402

The Netherlands Industrial CGU

The Netherlands Industrial CGU continues to be loss making in 2011. Taking into consideration the uncertainties in the European economic conditions, management has determined that it is unlikely that the CGU would be able to generate any positive cash flows in the near future. As such, as at 31 December 2011, management has fully written off the carrying amount of goodwill and recorded an impairment loss against the remaining goodwill amount from the Netherlands Industrial CGU of $2,402,000 (2010: $2,402,000).

Kingdom of Saudi Arabia Industrial CGU

The recoverable amount of the Kingdom of Saudi Arabia Industrial CGU was determined based upon the fair value less costs to sell method. The fair value less costs to sell has been estimated based on indicative quotes obtained from potential buyers. Based on this basis of estimated recoverable amount, the Group has recorded an impairment loss of $4,217,000 (2010: nil) to the goodwill arising from Kingdom of Saudi Arabia Industrial CGU.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

5 INTANGIBLE ASSETS (cont'd)

People's Republic of China Industrial and Municipal CGU

The recoverable amounts of the People's Republic of China Industrial and Municipal 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 2011 were determined in a similar manner as in 2010.

People's Republic of China Industrial CGU

For the People's Republic of China Industrial CGU, the calculation of the value in use were based on the cash flows that were projected from financial budgets approved by management covering a five-year period. The key assumptions made are regarding the commencement period of the production plant, revenue and costs.

The anticipated annual revenue growth included in the cash flow projections was 5% (2010: 2% to 5%) for the years 2013 to 2016 (2010: 2011 to 2015). From 2017 onwards, management has assumed that the revenue would remain constant. The costs are assumed to increase with the increase in revenue growth adjusted for the trend of the raw material prices based upon the published market rates of the futures.

People's Republic of China Municipal CGU

For the People's Republic of China Municipal CGU, the calculation of value in use is derived from the financial projections approved by management. The key assumptions made are those regarding forecast period, revenue and costs, growth rates and discount rates. Cash flows were projected over 20 to 30 years in accordance with the duration of the concession agreements.

The anticipated annual revenue growth included in the cash flow projections was 5.0%. The forecast revenue and costs, and growth rates are based on past performance of operating plants, expectations of market development as well as industry reports.

A pre-tax discount rate of 10% (2010: 12.5%) was applied in determining the recoverable amounts of the CGUs and reflect specific risks related 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).

Sensitivity to changes in assumption

Following the impairment in the People's Republic of China Industrial CGU, the recoverable amount is equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to further impairment.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

6 INTANGIBLE ASSETS ARISING FROM SERVICE CONCESSION ARRANGEMENTS

	Note	$'000
Group		
Cost		
At 1 January 2010		28,579
Acquisition through business combinations	28	92,895
Transfer to joint venture		(1,329)
Additions		10,628
Effect of movements in exchange rates		(839)
At 31 December 2010 and 1 January 2011		129,934
Additions		22,769
Effect of movements in exchange rates		6,400
At 31 December 2011		159,103
Accumulated amortisation and impairment losses		
At 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 and 1 January 2011		440
Amortisation for the year		3,211
Effect of movements in exchange rates		515
At 31 December 2011		4,166
Carrying amounts		
At 1 January 2010		27,871
At 31 December 2010 and 1 January 2011		129,494
At 31 December 2011		154,937

At 31 December 2011, 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 11). 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)

6 INTANGIBLE ASSETS ARISING FROM SERVICE CONCESSION ARRANGEMENTS (cont'd)

The service concession agreement does not contain a renewal option. The standard rights of the grantor to terminate the agreement include poor performance by the Group and in the event of a material breach in the terms of the agreement. The standard rights of the Group to terminate the agreement include failure of the grantor to make payment under the agreement, a material breach in the terms of the agreement, and any changes in law that would render it impossible for the Group to fulfill its requirements under the agreement.

7 INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	$'000	$'000
Unquoted equity securities, at cost	156,011	109,649
Impairment losses	(11,100)	(14,338)
	144,911	95,311
Loans to subsidiaries	24,509	24,509
	169,420	119,820

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.

During the year, the Company has assessed the recoverable amount of its investments in subsidiaries that have been loss-making since the previous financial years. The recoverable amount was estimated based on 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.

During the year, the liquidation of a subsidiary, Hangzhou Zheda Hyflux Hualu Membrane Tech. Co Ltd has been completed. Accordingly, the cost of investment and provision of impairment of $3,238,000 had been written off.

Details of major subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Ownership Interest	
		2011	2010
		%	%
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
TuaSpring Pte Ltd	Singapore	100	-
Hyflux Engineering Pte Ltd	Singapore	100	100

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

7 INVESTMENTS IN SUBSIDIARIES (cont'd)

Name of subsidiary	Country of incorporation	Ownership Interest 2011 %	2010 %
Held through subsidiaries			
Hydrochem Engineering (Shanghai) Co., Ltd	People's Republic of China	100	100
Hyflux Filtech (Shanghai) Co., Ltd	People's Republic of China	71	71
Hyflux Unitech (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 Engineering (Shanghai) Co., Ltd	People's Republic of China	100	100
Hyflux-TJSB Algeria SPA	Algeria	51	51
Hyflux Engineering Algeria EURL	Algeria	100	100
Sinolac (Huludao) Biotech 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 Hyflux Engineering Algeria EURL. Their respective statutory auditors are Shanghai HDDY Certified Public Accountants Co., Ltd, People's Republic of China and Guerza Rafik Expert Comptable G.R.E.C.

8 INVESTMENTS IN JOINT VENTURE

	Company 2011 $'000	2010 $'000
Unquoted equity securities, at cost	3,125	3,125

Details of the joint ventures are as follows:

Name of joint venture	Country of incorporation	Note	Ownership interest 2011 %	2010 %
Held by the Company				
Hyflux Marmon Development Pte. Ltd.	Singapore		50	50
Held through subsidiaries				
Galaxy NewSpring Pte. Ltd.	Singapore		50	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	28	50	50
Hyflux Utility WT (GCL) Limited	Hong Kong		50	50
Hyflux NewSpring (LiaoYang GongChangLing) Co., Ltd.	People's Republic of China		50	50
Hyflux Utility WT (MG) Limited	Hong Kong		50	50
Hyflux NewSpring Water Treatment (Mingguang) Co., Ltd.	People's Republic of China		50	50
Hyflux Utility (TY) Limited	Hong Kong		50	50
Hyflux NewSpring (Taoyuan) Co., Ltd.	People's Republic of China		50	50
Hyflux Utility (LP) Limited	Hong Kong		50	50
Hyflux NewSpring Water Treatment (Leping) Co., Ltd.	People's Republic of China		50	50
Hyflux Utility WTP (DZ) Pte Ltd	Singapore		50	–

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

8 INVESTMENTS IN JOINT VENTURE (cont'd)

Name of joint venture	Country of incorporation	Note	Ownership interest 2011 %	Ownership interest 2010 %
Held through joint ventures (cont'd)				
Hyflux NewSpring (Dezhou) Co., Ltd	People's Republic of China		50	–
Hyflux Utility WWT (HCHX) Pte Ltd	Singapore		50	–
Hyflux GaoYang Sewage Disposal (ChongQing) 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 Co., Ltd and the statutory auditor is KPMG Huazhen, Shanghai, 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:

	2011 $'000	2010 $'000
Assets and liabilities		
Non-current assets	405,518	354,263
Current assets	53,603	53,879
Total assets	459,121	408,142
Non-current liabilities	(131,904)	(81,054)
Current liabilities	(48,678)	(109,159)
Total liabilities	(180,582)	(190,213)
Results		
Revenue	38,218	12,677
Expenses	(39,264)	(15,332)
Loss before income tax	(1,046)	(2,655)
Contingent liabilities in respect of bank guarantees for which the Group is liable	(62,652)	(59,938)

9 INVESTMENTS IN ASSOCIATES

	Group 2011 $'000	Group 2010 $'000	Company 2011 $'000	Company 2010 $'000
Unquoted equity securities	108,887	75,032	13,704	13,320

Unquoted equity securities of the Group with a carrying amount of $88,195,000 (2010: $55,834,000) have been pledged as collateral for banking facilities granted to the associates.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

9 INVESTMENTS IN ASSOCIATES (cont'd)

Details of major associates are as follows:

Name of associate	Country of incorporation	Ownership interest 2011 %	Ownership interest 2010 %
Held by the Company			
SingSpring Trust	Singapore	30	30
Held through subsidiaries			
Ningxia Hypow Bio-Technology Co., Ltd	People's Republic of China	25	25
Tlemcen Desalination Investment Company SAS	France	30	30
Tahlyat Myah Magtaa SPA	Algeria	47	47

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:

	2011 $'000	2010 $'000
Assets and liabilities		
Total assets	345,251	251,491
Total liabilities	(296,566)	(191,549)
Results		
Revenue	27,227	36,972
Profit after income tax	1,226	1,959

10 OTHER INVESTMENTS

	Group 2011 $'000	Group 2010 $'000	Company 2011 $'000	Company 2010 $'000
Available-for-sale money market instrument	–	2,429	–	2,429

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

11 FINANCIAL RECEIVABLES

	Group 2011 $'000	Group 2010 $'000
Non-current		
Financial receivables	418,320	226,087
Lease receivables	–	62
	418,320	226,149
Current		
Financial receivables	4,874	5,596
Lease receivables	63	255
	4,937	5,851
Total	423,257	232,000

The financial receivables represent the unconditional rights to receive cash or other financial asset from or at the direction of the grantors for the construction or upgrade services provided. See note 6 for the background of the service concession agreements.

The Group has receivables under finance leases as follows:

	Minimum lease payment receivables 2011 $'000	Unearned finance income 2011 $'000	Present value of minimum lease payment receivables 2011 $'000	Minimum lease payment receivables 2010 $'000	Unearned finance income 2010 $'000	Present value of minimum lease payment receivables 2010 $'000
Group						
Within one year	82	19	63	329	74	255
Between one and five years	–	–	–	81	19	62
	82	19	63	410	93	317

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 2011 is 5.5% (2010: 5.5%) per annum.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

12 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Non-current				
Trade receivables	66	261	–	–
Amounts due from:				
- subsidiaries (non-trade)	–	–	445,312	16,924
- associates (non-trade)	15,486	15,555	–	–
	15,552	15,816	445,312	16,924
Current				
Trade receivables	90,691	53,976	–	–
Prepayments	4,927	1,865	3,276	245
Deposits	2,512	18,441	–	15,712
Advances to suppliers	19,826	11,278	–	–
Staff advances	323	312	–	–
Other receivables	12,801	13,958	–	–
Derivatives	546	754	514	754
Amounts due from:				
- subsidiaries (trade)	–	–	17,548	18,379
- subsidiaries (non-trade)	–	–	701,871	549,817
- joint ventures (trade)	30,015	30,806	–	16,927
- joint ventures (non-trade)	1,688	2,218	527	1,101
- associates (trade)	64,955	46,905	–	–
- associates (non-trade)	2,809	1,885	5,405	5,447
	231,093	182,398	729,141	608,382
Total	246,645	198,214	1,174,453	625,306

At 31 December 2011, trade receivables for the Group included a retention sum of $9,353,000 (2010: $7,090,000) relating to construction contracts in progress.

Included in current trade receivables of the Group are note receivables of $6,356,000 (2010: $6,531,000) relating to bank documents secured from customers for settlement of payment within the next six months.

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.

The non-current non-trade amounts due from associates bear interest at rates of 5.94% (2010: 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 21.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Tax losses	17,880	25,857	–	–
Deductible temporary differences	18	18	–	–
	17,898	25,875	–	–

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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Group				
Property, plant and equipment	–	–	182	791
Intangible assets	–	–	4,445	3,732
Intangible assets arising from service concession arrangements	(417)	(769)	23,747	21,117
Tax loss carry-forwards	(2,412)	(847)	–	–
Deferred tax (assets)/liabilities	(2,829)	(1,616)	28,374	25,640

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

13 DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

Movement in temporary differences during the year

Group	Balance as at 1 January 2010 $'000	Acquired in business combination $'000	Recognised in profit or loss (note 25) $'000	Exchange differences $'000	Balance as at 31 December 2010 $'000	From acquisition of subsidiaries by a joint venture $'000	Recognised in profit or loss (note 25) $'000	Exchange differences $'000	Balance as at 31 December 2011 $'000
Property, plant and equipment	667	–	124	–	791	–	(609)	–	182
Intangible assets	5,605	–	(1,873)	–	3,732	–	713	–	4,445
Intangible assets arising from service concession arrangements	–	20,348	–	–	20,348	2,729	(613)	866	23,330
Tax loss carry-forwards	(2,761)	–	1,606	308	(847)	–	(1,536)	(29)	(2,412)
	3,511	20,348	(143)	308	24,024	2,729	(2,045)	837	25,545

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

14 GROSS AMOUNTS DUE FOR CONTRACT WORK

	Note	Group 2011 $'000	Group 2010 $'000
Costs incurred and attributable profits		1,127,765	926,508
Progress billings		(964,410)	(682,011)
		163,355	244,497
Comprising of:			
Gross amounts due from contract work		176,910	254,469
Advance payments received from customers	17	(13,555)	(9,972)
		163,355	244,497

15 INVENTORIES

	Group 2011 $'000	Group 2010 $'000
Raw materials and consumables	11,798	13,456
Work in progress	11,010	10,896
Finished goods	1,387	1,909
	24,195	26,261

During the year, the write-down of inventories to net realisable value amounted to $113,000 (2010: $1,412,000) for the Group. The write-down is included as part of other expenses in profit or loss.

16 CASH AND CASH EQUIVALENTS

	Note	Group 2011 $'000	Group 2010 $'000	Company 2011 $'000	Company 2010 $'000
Bank balances		198,789	104,464	13,782	3,446
Fixed deposits with financial institutions		463,569	117,822	82,625	62,210
Cash and cash equivalents in the statement of financial position		662,358	222,286	96,407	65,656
Deposits pledged		–	(204)		
Bank overdrafts used for cash management purposes	18	(20,943)	–		
Cash and cash equivalents in the statement of cash flows		641,415	222,082		

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

17 TRADE AND OTHER PAYABLES

	Note	Group 2011 $'000	Group 2010 $'000	Company 2011 $'000	Company 2010 $'000
Trade payables		183,335	169,519	–	–
Progress payments from customers	14	13,555	9,972	–	–
Derivatives		395	–	354	–
Accrued expenses		13,958	19,790	762	747
Other payables		15,412	8,637	8,403	3,826
Amounts due to:					
- subsidiaries (trade)		–	–	41	37
- subsidiaries (non-trade)		–	–	126,007	68,870
- joint ventures (trade)		1,001	1,834	–	–
- joint ventures (non-trade)		184	286	–	–
		227,840	210,038	135,567	73,480

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 21.

18 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's and the Company's interest-bearing 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 risks, see note 21.

	Note	Group 2011 $'000	Group 2010 $'000	Company 2011 $'000	Company 2010 $'000
Non-current liabilities					
Secured bank loans		78,096	–	–	–
Unsecured bank loans		180,950	280,818	120,556	220,880
Unsecured notes		453,255	222,788	453,255	222,788
		712,301	503,606	573,811	443,668
Current liabilities					
Bank overdraft	16	20,943	–	–	–
Secured bank loans		6,482	43,122	–	–
Unsecured bank loans		2,258	52,538	–	52,538
Unsecured notes		88,438	–	88,438	–
		118,121	95,660	88,438	52,538
Total		830,422	599,266	662,249	496,206

Secured bank loans of the Group at 31 December 2011 are secured by land and building under construction with carrying amount of $41,787,000 and a joint venture's share mortgages of its shares of various subsidiaries. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

18 LOANS AND BORROWINGS (cont'd)

Unsecured bank loans and overdraft of the Group totalling $256,291,000 (2010: $294,295,000) are guaranteed by the Company and certain subsidiaries of the Group.

Unsecured bank loans of the Company totalling $120,556,000 (2010: $234,357,000) are guaranteed by certain subsidiaries of the Group.

At the reporting date, the Group does not consider it is probable that a claim will be made against the Group under the guarantees as described above.

During the year, the Company has increased the unsecured multi-currency debt which established in 2008 from $300 million to $800 million, 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 2011, $544 million (2010: $224 million) of unsecured fixed rate notes were in issue.

Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings are as follows:

	Currency	Nominal interest rate	Year of maturity	2011 Face value $'000	2011 Carrying amount $'000	2010 Face value $'000	2010 Carrying amount $'000
Group							
Unsecured bank loans	SGD	SIBOR + 0.93%	2010 - 2011	–	–	30,000	30,000
Unsecured bank loans	USD	LIBOR + 0.93%	2011	–	–	139,254	139,254
Unsecured bank loans	USD	LIBOR + 1.66%	2016	120,556	120,556	–	–
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	5.94% - 6.6%	2023	63,281	62,652	60,539	59,938
Secured bank loans	USD	COF* + 2.5%	2012 - 2017	33,704	33,704	–	–
Secured bank loans	USD	LIBOR + 2.5%	2012 - 2014	51,963	50,874	–	–
Secured bank loans	SGD	SOR + margin	2011	–	–	43,159	43,122
Unsecured notes	SGD	3.5% - 5.68%	2012 - 2019	543,500	541,693	223,500	222,788
Bank overdraft	DZD	6% - 9%	2012	20,943	20,943	–	–
Total loans and borrowings				833,947	830,422	600,616	599,266
Company							
Unsecured bank loans	SGD	SIBOR + 0.93%	2010 - 2011	–	–	30,000	30,000
Unsecured bank loans	USD	LIBOR + 0.93%	2011	–	–	139,254	139,254
Unsecured bank loans	USD	LIBOR + 1.66%	2016	120,556	120,556	–	–
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	3.5% - 5.68%	2012 - 2019	543,500	541,693	223,500	222,788
Total loans and borrowings				664,056	662,249	496,918	496,206

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

18 LOANS AND BORROWINGS (cont'd)

Terms and debt repayment schedule (cont'd)

COF* : Costs of funds, the rate per annum determined by the bank to be the aggregate of :

i. 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
ii. 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).

19 CAPITAL AND RESERVES

Share capital

	Ordinary shares		CPS*	
	2011	**2010**	**2011**	**2010**
	No. of shares		**No. of shares**	
	'000	**'000**	**'000**	**'000**
Group and Company				
On issue at 1 January	857,931	528,365	–	–
Issue of bonus shares	–	285,977	–	–
Issue of CPS	–	–	4,000	–
Exercise of share options	3,459	3,372	–	–
Exercise of warrants	–	40,217	–	–
Purchase of treasury shares	(2,711)	–	–	–
On issue at 31 December	858,679	857,931	4,000	–

* 6% Cumulative Non-convertible Non-voting Perpetual Class A Perpetual Preference Shares.

All shares rank equally with regard to the Company's residual assets, except that CPS shareholders which rank senior to the ordinary shareholders participate only to the extent of the face value of the CPS.

All issued shares are fully paid, with no par value.

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. In respect of the Company's shares that are held by the Group, the rights are suspended until these shares are issued.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

19 CAPITAL AND RESERVES (cont'd)

Ordinary shares (cont'd)

Issuance of ordinary shares

3,459,000 (2010: 43,589,000) 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 were exercised at an average price of $1.364 (2010: $1.218) per option. In 2010, the warrants were exercised at an average price of $2.392 per warrant.

All issued shares were fully paid.

CPS

	Group and Company 2011 $'000
Proceeds from issue of CPS	400,000
Transaction costs	(7,431)
Net proceeds/carrying amount at 31 December	392,569

On 25 April 2011, the Company issued 4,000,000 CPS listed on the Main Board of the Singapore Exchange Securities Trading Limited.

The CPS do not carry the right to vote at general meeting except in certain limited circumstances as specified in the Offer Information Statement dated 13 April 2011 (the OIS) and rank senior to the ordinary shares with regard to the Company's residual assets, to the extent of the face value of the CPS. All issued shares are fully paid.

The CPS carry a dividend rate of 6% per annum of their liquidation preference (being $100 per CPS), payable semi-annually when, as and if declared by the Board, in arrears on 25 April and 25 October of each year, subject to certain conditions specified in the OIS.

The Company has the right, but not the obligation, to redeem the CPS on or after 25 April 2018, at the liquidation preference for each CPS plus accrued but unpaid dividends up to (but excluding) the redemption date. If the CPS are not redeemed by the Company on 25 April 2018, dividends will accrue on the CPS at the rate of 8% per annum of their liquidation preference on and from 25 April 2018.

The CPS are perpetual securities with no maturity date and are not redeemable at the option of the holders of the CPS. The Company may at its sole discretion, redeem the CPS for cash, in whole or in part (on a pro rata basis), under certain circumstances, subject to the terms and conditions of OIS.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

19 CAPITAL AND RESERVES (cont'd)

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 in 2010 and there are no outstanding warrants at 31 December 2011.

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 2011, the Group held 3,211,000 (2010: 500,000) of the Company's shares.

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.

(d) Accumulated amortisation of transaction costs incurred in the issuance of redeemable preference shares.

Foreign currency translation reserve

The translation reserve comprises foreign currency 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

19 CAPITAL AND RESERVES (cont'd)

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	
	2011	**2010**
	$'000	**$'000**
Final tax-exempt dividend paid of 3.50 cents (2010: 5.00 cents) per share in respect of previous financial year	30,108	28,515
Interim tax-exempt dividend paid of 0.67 cent (2010: 1.00 cent) per share in respect of current financial year	5,767	5,707
$100 per CPS (2010: nil)	12,033	–
	47,908	34,222

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	
	2011	**2010**
	$'000	**$'000**
Final proposed tax-exempt dividend of 2.10 cents (2010: 3.50 cents) per share	18,032	30,027

20 SHARE-BASED PAYMENT

Description of the share-based payment arrangements

At 31 December 2011, the Group has the following share-based payment arrangements.

Share option scheme (equity-settled)

The Hyflux Employees' Share Option Scheme (the 2001 Scheme) of the Company was approved and adopted by its members at an Extraordinary General Meeting held on 27 September 2001. The 2001 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 2001 Scheme which allowed Olivia Lum Ooi Lin, Executive Chairman and Group CEO, and a substantial shareholder of the Company, to participate in the 2001 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 2001 Scheme.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

20 SHARE-BASED PAYMENT (cont'd)

The 2001 Scheme expired on 26 September 2011.

On 27 April 2011, the members of the Company have approved the implementation of new share option scheme (the 2011 Scheme) to replace the 2001 Scheme that expired on 26 September 2011. The implementation of the 2011 Scheme and replacement of expired scheme do not affect the rights of holders of the options under the expired 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 2011 Scheme. The aggregate number of scheme shares available to Olivia Lum Ooi Lin and her associates (as defined in SGX Listing Manual) shall not exceed 25% of the total number of scheme shares available under the 2011 Scheme. It was in force since 27 September 2011 and shall expire on 26 September 2021.

Both the 2001 Scheme and 2011 Scheme (collectively as the Schemes) are administered by the Remuneration Committee.

Once these options have vested, the options are exercisable by an employee during a contractual option term of 10 years (the options granted for a non-executive director under 2001 Scheme has a validity period of 5 years) 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.

The duration of the 2011 Scheme 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 under the Schemes are conditional upon various factors including the directors and employees completing their years of service to the Group.

Disclosure of share option scheme

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2011 $	Number of options 2011	Weighted average exercise price 2010 $	Number of options 2010
Outstanding at 1 January	1.656	35,640,369	1.492	25,279,093
Forfeited during the year	1.782	(4,517,572)	1.657	(2,338,000)
Exercised during the year	1.364	(3,437,116)	1.218	(3,372,187)
Granted during the year	1.631	14,028,000	2.297	4,200,000
Bonus options	–	–	1.655	11,871,463
Outstanding at 31 December	1.658	41,713,681	1.656	35,640,369
Exercisable at 31 December	1.564	19,588,481	1.583	18,497,469

The options outstanding at 31 December 2011 have an exercise price in the range of $0.275 to $2.419 (2010: $0.179 to $2.419) and a weighted average contractual life of 6.66 years (2010: 6.28 years).

The weighted average share price at the date of exercise for share options exercised in 2011 was $1.990 (2010: $1.485) per share.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

20 SHARE-BASED PAYMENT (cont'd)

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	**4 March 2011**	**18 October 2011**
Fair value at grant date	$0.383	$0.217
Share price at grant date	$1.830	$1.430
Exercise price	$1.892	$1.466
Expected volatility (weighted average volatility)	32%	32%
Option life (expected weighted average life)	100 days	100 days
Expected dividends	1.85%	3.95%
Risk-free interest rate (based on government bonds)	0.75%	0.34%

21 FINANCIAL INSTRUMENTS

Credit risk

Exposure to credit risk

The carrying amount of financial assets in the statement of financial position represents the Group and the Company's respective maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Group		Company	
	Note	**2011**	**2010**	**2011**	**2010**
		$'000	**$'000**	**$'000**	**$'000**
Financial receivables	11	423,257	232,000	–	–
Trade receivables	12	90,757	54,237	–	–
Deposits	12	2,512	18,441	–	15,712
Advances to suppliers	12	19,826	11,278	–	–
Staff advances	12	323	312	–	–
Other receivables	12	12,801	13,958	–	–
Amounts due from:					
- subsidiaries (trade)	12	–	–	17,548	18,379
- subsidiaries (non-trade)	12	–	–	1,147,183	566,741
- joint ventures (trade)	12	30,015	30,806	–	16,927
- joint ventures (non-trade)	12	1,688	2,218	527	1,101
- associates (trade)	12	64,955	46,905	–	–
- associates (non-trade)	12	18,295	17,440	5,405	5,447
Cash and cash equivalents	16	662,358	222,286	96,407	65,656
Loans and receivables		1,326,787	649,881	1,267,070	689,963
Available-for-sale money market instrument	10	–	2,429	–	2,429
Derivatives	12	546	754	514	754
Recognised financial assets		1,327,333	653,064	1,267,584	693,146

The Group's revenue is earned from a wide range of customers for whom there has not been a significant change in their credit quality.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21 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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Municipal	1,150,088	514,532	–	–
Industrial	138,227	128,893	–	–
Subsidiaries	–	–	1,164,731	585,120
Joint ventures	–	–	527	18,028
Associates	–	–	5,405	5,447
Others	38,472	6,456	96,407	81,368
	1,326,787	649,881	1,267,070	689,963

The credit quality of trade and other receivables is assessed based upon the credit policy in place. At the reporting date, the Group and the Company believe that the credit quality of trade and other receivables that were not past due or impaired is of acceptable risk.

The Group does not require collateral in respect of trade and other receivables.

Impairment losses

The ageing of loans and receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
	2011	2011	2010	2010
	$'000	$'000	$'000	$'000
Group				
Not past due	1,275,441	–	631,684	–
Past due 0 to 60 days	10,271	5	7,007	–
Past due 61 to 120 days	10,249	–	4,501	–
More than 120 days	35,753	4,922	11,969	5,280
	1,331,714	4,927	655,161	5,280
Company				
Not past due	1,267,070	–	689,963	–

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21 **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	
	2011	**2010**
	$'000	**$'000**
At 1 January	5,280	4,875
Impairment loss recognised	1,980	2,411
Impairment loss written off	(1,503)	(828)
Impairment loss written back	(903)	(885)
Effect of movements in exchange rates	73	(293)
At 31 December	4,927	5,280

At 31 December 2011, an impairment loss of the Group of $1,980,000 relates to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to financial difficulties.

The impairment losses recognised and written back during the year are included as part of other expenses in profit or loss.

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 that are unimpaired at 31 December 2011 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 additional impairment allowance is necessary on the Company's loans and receivables as at 31 December 2011.

Cash and cash equivalents

The Group held cash and cash equivalents of $662,358,000 at 31 December 2011 (2010: $222,286,000), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A+ to AA-, based on rating agency Standard & Poor's ratings.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21 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:

		Cash flows			
	Carrying amount $'000	Contractual cash flows $'000	Within 1 year $'000	Between 1 and 5 years $'000	More than 5 years $'000
Group					
2011					
Non-derivative financial liabilities					
Bank overdraft	20,943	(22,427)	(22,427)	–	–
Variable interest rate loans	267,786	(315,818)	(20,799)	(236,586)	(58,433)
Fixed interest rate notes	541,693	(642,636)	(110,674)	(351,302)	(180,660)
Trade and other payables*	213,890	(213,890)	(213,890)	–	–
	1,044,312	(1,194,771)	(367,790)	(587,888)	(239,093)
Derivative financial instruments					
Forward exchange contracts (gross-settled)	(546)				
- Outflow		(80,961)	(80,961)	–	–
- Inflow		81,611	81,611	–	–
Forward exchange contracts (gross-settled)	354				
- Outflow		(38,955)	(38,955)	–	–
- Inflow		38,640	38,640	–	–
Interest rate swaps used for hedging (net-settled)	41	(65)	(41)	(24)	–
	(151)	270	294	(24)	–

* Excludes derivatives (shown separately) and progress payments from customers.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21 FINANCIAL INSTRUMENTS (cont'd)

Liquidity risk (cont'd)

		Cash flows			
Group	**Carrying amount $'000**	**Contractual cash flows $'000**	**Within 1 year $'000**	**Between 1 and 5 years $'000**	**More than 5 years $'000**
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)	–
Trade and other payables*	200,066	(200,066)	(200,066)	–	–
	799,332	(880,935)	(332,306)	(348,633)	(199,996)
Derivative financial instruments					
Forward exchange contracts (gross-settled)	(754)				
- Outflow		(39,036)	(39,036)	–	–
- Inflow		39,207	39,207	–	–
	(754)	171	171	–	–
Company					
2011					
Non-derivative financial liabilities					
Variable interest rate loans	120,556	(131,365)	(2,358)	(129,007)	–
Fixed interest rate notes	541,693	(642,636)	(110,674)	(351,302)	(180,660)
Trade and other payables*	135,213	(135,213)	(135,213)	–	–
	797,462	(909,214)	(248,245)	(480,309)	(180,660)
Derivative financial instruments					
Forward exchange contracts (gross-settled)	(514)				
- Outflow		(77,910)	(77,910)	–	–
- Inflow		78,527	78,527	–	–
Forward exchange contracts (gross-settled)	354				
- Outflow		(38,955)	(38,955)	–	–
- Inflow		38,640	38,640	–	–
	(160)	302	302	–	–
2010					
Non-derivative financial liabilities					
Variable interest rate loans	273,418	(291,071)	(74,366)	(76,325)	(140,380)
Fixed interest rate notes	222,788	(257,049)	(11,051)	(245,998)	–
Trade and other payables*	73,480	(73,480)	(73,480)	–	–
	569,686	(621,600)	(158,897)	(322,323)	(140,380)
Derivative financial instruments					
Forward exchange contracts (gross-settled)	(754)				
- Outflow		(39,036)	(39,036)	–	–
- Inflow		39,207	39,207	–	–
	(754)	171	171	–	–

* Excludes derivatives (shown separately) and progress payments from customers.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21 FINANCIAL INSTRUMENTS (cont'd)

Liquidity risk (cont'd)

The maturity analysis shows the undiscounted cash flows of the Group and the Company's financial liabilities on the basis of their earliest possible contractual maturity.

For derivative financial instruments, the cash inflows/(outflows) represent the contractual undiscounted cash flows relating to these instruments. Gross inflows and outflows are included for derivatives that are gross-settled on a simultaneous basis.

Except for the cash flow arising from the intragroup financial guarantee, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

At the reporting date, the Company does not consider it probable that a claim will be made against the Company under the intragroup financial guarantee.

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 2011 US dollars $'000	31 December 2010 US dollars $'000
Group		
Trade and other receivables	245,732	362,798
Cash and cash equivalents	75,478	82,080
Loans and borrowings	(154,260)	(243,418)
Trade and other payables	(96,952)	(132,760)
	69,998	68,700
Company		
Trade and other receivables	302,601	294,960
Cash and cash equivalents	808	40,183
Loans and borrowings	(120,556)	(243,418)
Trade and other payables	(9,912)	(49,018)
	172,941	42,707

Sensitivity analysis

A 10% strengthening of the Singapore dollar, as indicated below, against the US dollars at 31 December would have decreased equity and profit before income tax in profit or loss 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 2010, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below:

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21 FINANCIAL INSTRUMENTS (cont'd)

Currency risk (cont'd)

Sensitivity analysis (cont'd)

	Group		Company	
	Profit before income tax $'000	Equity $'000	Profit before income tax $'000	Equity $'000
31 December 2011				
US dollars (10% strengthening)	(7,000)	–	(17,294)	–
31 December 2010				
US dollars (10% strengthening)	(6,870)	–	(4,271)	–

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.

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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Fixed rate instruments				
Bank overdraft	(20,943)	–	–	–
Unsecured notes	(541,693)	(222,788)	(541,693)	(222,788)
	(562,636)	(222,788)	(541,693)	(222,788)
Variable rate instruments				
Variable interest rate loans	(267,786)	(376,478)	(120,556)	(273,418)

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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21 FINANCIAL INSTRUMENTS (cont'd)

Interest rate risk (cont'd)

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) equity and profit before income tax in profit or loss 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 2010.

	Profit before income tax		**Equity**	
	75 bp increase $'000	**75 bp decrease $'000**	**75 bp increase $'000**	**75 bp decrease $'000**
Group				
31 December 2011				
Variable rate instruments	(2,008)	2,008	–	–
31 December 2010				
Variable rate instruments	(2,824)	2,824	–	–
Company				
31 December 2011				
Variable rate instruments	(904)	904	–	–
31 December 2010				
Variable rate instruments	(2,051)	2,051	–	–

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21 FINANCIAL INSTRUMENTS (cont'd)

Accounting classifications and fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

Group	Note	Designated at fair value $'000	Loans and receivables $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
31 December 2011						
Cash and cash equivalents	16	–	662,358	–	662,358	662,358
Trade and other receivables*	12	–	241,172	–	241,172	241,356
Financial receivables	11	–	423,257	–	423,257	424,527
Gross amounts due from contract work	14	–	176,910	–	176,910	176,910
Financial assets designated at fair value through profit or loss	12	546	–	–	546	546
		546	1,503,697	–	1,504,243	1,505,697
Secured bank loans	18	–	–	(84,578)	(84,578)	(84,578)
Unsecured bank loans	18	–	–	(183,208)	(183,208)	(183,208)
Unsecured notes	18	–	–	(541,693)	(541,693)	(563,951)
Trade and other payables#	17	–	–	(213,890)	(213,890)	(213,890)
Financial liabilities designated at fair value through profit or loss	17	(395)	–	–	(395)	(395)
Bank overdraft	18	–	–	(20,943)	(20,943)	(20,943)
		(395)	–	(1,044,312)	(1,044,707)	(1,066,965)

* Excluding derivatives (shown separately) and prepayment.
# Excluding progress payments from customers and derivatives (shown separately).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21 FINANCIAL INSTRUMENTS (cont'd)

Accounting classifications and fair values (cont'd)

Fair values versus carrying amounts (cont'd)

Group	Note	Designated at fair value $'000	Loans and receivables $'000	Available-for-sale $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
31 December 2010							
Cash and cash equivalents	16	–	222,286	–	–	222,286	222,286
Trade and other receivables*	12	–	195,595	–	–	195,595	195,732
Financial receivables	11	–	232,000	–	–	232,000	205,664
Gross amounts due from contract work	14	–	254,469	–	–	254,469	254,469
Available-for-sale money market instrument	10	–	–	2,429	–	2,429	2,429
Financial assets designated at fair value through profit or loss	12	754	–	–	–	754	754
		754	904,350	2,429	–	907,533	881,334
Secured bank loans	18	–	–	–	(43,122)	(43,122)	(43,122)
Unsecured bank loans	18	–	–	–	(333,356)	(333,356)	(333,356)
Unsecured notes	18	–	–	–	(222,788)	(222,788)	(232,801)
Trade and other payables#	17	–	–	–	(200,066)	(200,066)	(200,066)
		–	–	–	(799,332)	(799,332)	(809,345)

* Excluding derivatives (shown separately) and prepayment.
\# Excluding progress payments from customers and derivatives (shown separately).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21 FINANCIAL INSTRUMENTS (cont'd)

Accounting classifications and fair values (cont'd)

Fair values versus carrying amounts (cont'd)

Company	Note	Designated at fair value $'000	Loans and receivables $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
31 December 2011						
Cash and cash equivalents	16	–	96,407	–	96,407	96,407
Trade and other receivables*	12	–	1,170,663	–	1,170,663	1,170,663
Financial assets designated at fair value through profit or loss	12	514	–	–	514	514
		514	1,267,070	–	1,267,584	1,267,584
Unsecured bank loans	18	–	–	(120,556)	(120,556)	(120,556)
Unsecured notes	18	–	–	(541,693)	(541,693)	(563,951)
Trade and other payables#	17	–	–	(135,213)	(135,213)	(135,213)
Financial liabilities designated at fair value through profit or loss	17	(354)	–	–	(354)	(354)
		(354)	–	(797,462)	(797,816)	(820,074)

* Excluding derivatives (shown separately) and prepayment.
# Excluding derivatives (shown separately).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21 FINANCIAL INSTRUMENTS (cont'd)

Accounting classifications and fair values (cont'd)

Fair values versus carrying amounts (cont'd)

Company	Note	Designated at fair value $'000	Loans and receivables $'000	Available-for-sale $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
31 December 2010							
Cash and cash equivalents	16	–	65,656	–	–	65,656	65,656
Trade and other receivables*	12	–	624,307	–	–	624,307	624,307
Available-for-sale money market instrument	10	–	–	2,429	–	2,429	2,429
Financial assets designated at fair value through profit or loss	12	754	–	–	–	754	754
		754	689,963	2,429	–	693,146	693,146
Unsecured bank loans	18	–	–	–	(273,418)	(273,418)	(273,418)
Unsecured notes	18	–	–	–	(222,788)	(222,788)	(232,801)
Trade and other payables	17	–	–	–	(73,480)	(73,480)	(73,480)
		–	–	–	(569,686)	(569,686)	(579,699)

* Excluding derivatives (shown separately) and prepayment.

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 2011	Group 2010
Amounts due from associates (non-trade)	6.0%	6.0%
Unsecured notes	3.0%	3.0%
Financial receivables	2.36% - 4.45%	5.24%

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

21 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 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Group				
31 December 2011				
Derivatives	–	151	–	151
	–	151	–	151
Company				
31 December 2011				
Derivatives	–	160	–	160
	–	160	–	160
Group and Company				
31 December 2010				
Derivatives	–	754	–	754
Available-for-sale money market instrument	–	2,429	–	2,429
	–	3,183	–	3,183

22 REVENUE

	Group	
	2011 $'000	2010 $'000
Construction revenue	418,530	513,127
Operating and maintenance income	39,001	32,816
Sale of goods	15,576	17,780
Finance income	6,755	3,697
Finance lease income	394	378
Others	1,719	1,939
	481,975	569,737

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

23 FINANCE COSTS

	Group	
	2011	2010
	$'000	$'000
Interest expense:		
- bank loans	22,597	16,756
- finance lease liabilities	–	4
	22,597	16,760

24 PROFIT BEFORE INCOME TAX

The following items have been included in arriving at profit before income tax:

	Group	
	2011	2010
	$'000	$'000
Net foreign currency exchange loss	2,123	16,355
Rental income from investment property	–	(323)
Interest income:		
- fixed deposits with financial institutions	(775)	(325)
- associates	(2,266)	(2,800)
Fair value loss/(gain) on derivative financial instruments	594	(754)
Gain on sale of investment property	–	(1,186)
Remeasurement to fair value of an associate to joint venture	–	(22,787)
(Gain)/loss on sale of property, plant and equipment	(11,899)	380
Operating expenses arising from rental of investment property	–	88
Impairment of investments	–	264
Impairment of trade and other receivables	2,889	1,526
Financial receivables written off	3,056	–
Operating lease expense	8,884	6,023
Professional fees paid to firms in which a director is member	279	3
Contribution to defined contribution plans, included in staff costs	6,531	5,669
Employees' share option expense, included in staff costs	1,038	1,829
Research expense	1,380	2,166
Government grant under Jobs Credit Scheme	–	(260)
Audit fees paid to:		
- auditors of the Company	579	522
- other member firms of KPMG International	218	194
- other auditors	88	89
Non-audit fees paid to:		
- auditors of the Company	28	63
- other member firms of KPMG International	49	37

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

25 TAX EXPENSE

	Group	
	2011	2010
	$'000	$'000
Current tax expense		
Current year	11,655	11,561
(Over)/under provided in prior years	(3,292)	170
	8,363	11,731
Deferred tax expense		
Origination and reversal of temporary differences	(2,006)	(314)
(Over)/under provided in prior years	(39)	171
	(2,045)	(143)
Tax expense	6,318	11,588
Reconciliation of effective tax rate		
Profit before income tax	62,043	100,473
Income tax using Singapore tax rate of 17%	10,547	17,080
Effect of different tax rates in foreign jurisdictions	998	773
Tax exempt income	(2,199)	(2,650)
Non-deductible expenses	5,558	2,388
Effect of partial tax exemption and tax reliefs	(5,255)	(6,344)
(Over)/underprovided in prior years	(3,331)	341
	6,318	11,588

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)

26 EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders of $37,027,000 (2010: $88,510,000), and a weighted average number of ordinary shares outstanding of 860,219,000 (2010: 841,682,000), calculated as follows:

Profit attributable to ordinary shareholders

	Group	
	2011	**2010**
	$'000	**$'000**
Profit for the year	53,027	88,510
Dividends on CPS	(16,000)	–
Profit attributable to ordinary shareholders	37,027	88,510

Weighted average number of ordinary shares

		Group	
	Note	**2011**	**2010**
		'000	**'000**
Issued ordinary shares at 1 January	19	857,931	528,365
Effect of own shares held		(345)	–
Effects of share options and warrants exercised		2,633	32,756
Effect of bonus issue		–	280,561
Weighted average number of ordinary shares at 31 December		860,219	841,682

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2011 was based on profit attributable to ordinary shareholders of $37,027,000 (2010: $88,510,000), and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 865,451,000 (2010: 865,351,000), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Group	
	2011	**2010**
	'000	**'000**
Weighted average number of ordinary shares (basic)	860,219	841,682
Effect of share options on issue	5,232	23,669
Weighted average number of ordinary shares (diluted) at 31 December	865,451	865,351

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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

27 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.

- *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 2011 or 2010.

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 & Others, China and Middle East & 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

27 SEGMENT REPORTING (cont'd)

Information about reportable segments

	Municipal		Industrial		All other segments		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
External revenues	417,816	511,180	58,784	55,144	5,375	3,413	481,975	569,737
Inter-segment revenue	115,225	25,593	2,839	(3,906)	703	(938)	118,767	20,749
Interest income	203	–	1,322	1,203	8	175	1,533	1,378
Interest expense	(11,734)	(3,783)	(3)	(16)	(3)	115	(11,740)	(3,684)
Depreciation, amortisation and impairment	(7,778)	(3,378)	(16,315)	(14,967)	(387)	(2,593)	(24,480)	(20,938)
Reportable segment profit/(loss) before income tax	93,972	132,687	(12,800)	(11,355)	2,660	(3,178)	83,832	118,154
Share of profit/(loss) of associates, net of income tax	287	1,774	(1,145)	(1,103)	2,084	1,288	1,226	1,959
Tax (expenses)/income	(6,160)	(6,107)	(450)	(2,493)	292	(2,988)	(6,318)	(11,588)
Operating lease expenses	(6,713)	(5,293)	(493)	(649)	(1,678)	(81)	(8,884)	(6,023)
Contribution to defined contribution plan, included in staff cost	(5,099)	(4,251)	(1,316)	(1,318)	(116)	(100)	(6,531)	(5,669)
Reportable segment assets	1,418,559	900,623	214,036	249,208	86,088	14,015	1,718,683	1,163,846
Investments in associates	99,111	66,549	2,550	3,445	7,226	5,038	108,887	75,032
Capital expenditure	12,419	125,171	601	2,673	260	318	13,280	128,162
Reportable segment liabilities	353,344	261,439	25,683	23,778	55,623	63,771	434,650	348,988

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

27 SEGMENT REPORTING (cont'd)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

	2011 $'000	2010 $'000
Revenues		
Total revenue for reportable segments	476,600	566,324
Other revenue	5,375	3,413
Consolidated revenue	481,975	569,737
Profit or loss		
Total profit or loss for reportable segments	81,172	121,332
Other profit or loss	2,660	(3,178)
	83,832	118,154
Unallocated amounts:		
- Other corporate expenses	(23,015)	(19,640)
Share of profit of associates, net of income tax	1,226	1,959
Consolidated profit before income tax	62,043	100,473
Assets		
Total assets for reportable segments	1,632,595	1,149,831
Other assets	86,088	14,015
Investments in associates	108,887	75,032
Other unallocated amounts	204,895	120,824
Consolidated total assets	2,032,465	1,359,702
Liabilities		
Total liabilities for reportable segments	379,027	285,217
Other liabilities	55,623	63,771
Other unallocated amounts	662,248	496,207
Consolidated total liabilities	1,096,898	845,195

Other material items in 2011

	Reportable segment totals $'000	Adjustments $'000	Consolidated totals $'000
Interest income	1,525	1,516 *	3,041
Interest expense	(11,737)	(10,860) *	(22,597)
Capital expenditure	13,020	45,440 ^	58,460
Depreciation, amortisation and impairment	(24,093)	(12,544) ^	(36,637)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

27 SEGMENT REPORTING (cont'd)

Other material items in 2010

	Reportable segment totals $'000	Adjustments $'000	Consolidated totals $'000
Interest income	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)

* This represents interest income 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 2011

	Revenues $'000	Non-current assets $'000
Middle East & North Africa	114,410	99,504
People's Republic of China	140,716	529,612
Singapore & Others	226,849	303,856
	481,975	932,972

31 December 2010

	Revenues $'000	Non-current assets $'000
Middle East & North Africa	343,810	60,247
People's Republic of China	150,797	488,263
Singapore & Others	75,130	117,498
	569,737	666,008

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

28 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 $'000	Fair value adjustments $'000	Recognised values on acquisition $'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 had been recorded as part of revenue, consistent with the Group's accounting policy at note 3.13.

The goodwill recognised on the acquisition is attributable mainly to the future profitability and synergies related to customers' contracts portfolio.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

28 ACQUISITIONS OF A JOINT VENTURE AND NON-CONTROLLING INTERESTS (cont'd)

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.

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

29 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)

29 DETERMINATION OF FAIR VALUES (cont'd)

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.

Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a credit-adjusted risk-free interest rate (based on government bonds).

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.

30 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)

30 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.

Loan 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 loan 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

30 FINANCIAL RISK MANAGEMENT (cont'd)

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.

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	
	2011	**2010**
	$'000	**$'000**
Loans and borrowings	830,422	599,266
Less: Cash and cash equivalents	(662,358)	(222,286)
Net debt	168,064	376,980
Total equity	935,567	514,507
Gearing ratio	18%	73%

From time to time, the Group purchases its own shares on the market pursuant to the Shares Purchase Mandate (the Mandate) obtained at the Annual General Meeting on 27 April 2011. The Mandate is subject to renewal annually by Shareholders at the Annual General Meeting.

There were no changes in the Group's approach to capital management during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

30 FINANCIAL RISK MANAGEMENT (cont'd)

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 19).

(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 2011.

31 OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2011	**2010**
	$'000	**$'000**
Within one year	9,984	4,340
Between one and five years	38,635	16,579
More than five years	49,474	59,677
	98,093	80,596

The Group has various operating lease agreements for site equipment, membrane production facilities, 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.

32 CAPITAL COMMITMENTS

(i) At 31 December 2011, the Group has outstanding commitments in respect of uncalled capital of approximately US$5,100,000 (2010: US$33,300,000) in an associate.

(ii) At 31 December 2011, the Group has outstanding capital commitments of $23,988,000 (2010: $49,462,000).

33 CONTINGENCIES

On 28 July 2011, a fire broke out at the Magtaa desalination plant in Algeria which destroyed the warehouse which contained certain equipment to be installed for the project. As these equipment have to be re-purchased, the project completion is expected to be delayed till September 2012 and the Group has claimed for an extension of the contractual completion date with the project owners. Foul play has been ruled out by the local Algerian authorities. Taking into consideration the circumstances which caused the delay and the project is covered by a comprehensive construction all risk insurance policy, the Group is confident that an extension of time for the completion of the project will be obtained and no contingent liabilities have been recognised.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

33 CONTINGENCIES (CONT'D)

In another project which was completed and handed over in 2011, the Group has potential contingencies arising from the delayed completion of the construction of a plant in its capacity as the Engineering, Procurement and Construction (EPC) contractor. However, the Group in its capacity as the EPC contractor has claimed for an extension of time as it had been prevented by the project owner from commencing testing and commissioning works sooner than it was eventually allowed to do so. Furthermore, the Group, in its capacity as the Operation and Maintenance contractor, has a claim against the project owner for unpaid mobilisation fees that it is contractually entitled to. As at 31 December 2011, the Group is still in negotiation with the project owner and currently, no contingent liabilities or assets have been recognised.

In a separate design and supply of a seawater desalination facility, the customer has claimed for delay liquidated damages. However, the Group, in its capacity as the water technology provider for the project, has, in turn, claimed for an extension of the completion deadline as well as prolongation costs on the basis that the customer, who is responsible for the civil and structural works for the project, was late in its deliverables thereby obstructing the timely completion of project. As at 31 December 2011, the Group is still in negotiation with the customer and currently, no contingent liabilities or assets have been recognised.

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.

34 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	
	2011	**2010**
	$'000	**$'000**
Directors' fees	541	490
Short-term employee benefits	4,589	4,678
Share-based payments	692	761
	5,822	5,929
Comprise amounts paid/payable to:		
- Directors of the Company	2,324	2,277
- Other key management personnel	3,498	3,652
	5,822	5,929

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 20.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

34 RELATED PARTIES (cont'd)

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:

	Transaction value for the year ended 31 December		Balance outstanding as at 31 December	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Group				
Director				
Acquisition of non-controlling interest	–	774	–	–
Joint venture				
Revenue from construction contracts	50,168	9,185	25,470	133
Revenue from maintenance contracts	4,919	504	3,458	652
Rental income	170	36	155	48
Associates				
Revenue from construction contracts	74,751	293,754	84,391	60,962
Revenue from maintenance contracts	18,991	30,594	2,159	11,631
Management fee income	–	883	–	366

35 SUBSEQUENT EVENTS

On 28 February 2012, the Company announced that it has been served with an Arbitration Notice (the Notice) by the China International Economic and Trade Arbitration Commission. The Notice relates to an arbitration (Arbitration) commenced by an associate, Ningxia Hypow Bio-Technology Co., Ltd (the Claimant) claiming for an amount up to RMB436 million for certain non-water industrial project works carried out by the subsidiaries of the Group for the Claimant.

The Company has provided a corporate guarantee for such works done by its subsidiaries. The Group believes the allegations made by the Claimant are without merit and will defend all claims vigorously. The Company also intends to file substantive counterclaims against the Claimant and the PRC shareholders of the Claimant. The outcome of the arbitration is uncertain.

On 5 March 2012, the Company granted 7,305,000 share options pursuant to the Hyflux Employees' Share Option Scheme 2011 at an exercise price of $1.469 per share. The validity period of options granted is from 5 March 2012 to 4 March 2022.

On 22 March 2012, the Company announced that it has through its wholly-owned subsidiary, Hyflux Utility (India) Pte Ltd, together with its Japanese partners, Hitachi Ltd and Itochu Corporation signed a co-developer agreement for the development of a seawater desalination plant with a designed capacity of 336,000m^3 per day to be located in the Dahej Special Economic Zone in the State of Gujarat, India.

As at the date of this report and subsequent to year-end, pursuant to the Shares Purchase Mandate obtained at the Annual General Meeting on 27 April 2011, the Company had purchased by way of market acquisition an aggregate of 11,094,000 ordinary shares in the capital of the Company, which are held as treasury shares. The total consideration inclusive of brokerage and clearing fees paid for the purchases was S$16 million. The highest price paid for the purchases was S$1.50 per share and the lowest price paid was S$1.19 per share.

APPENDIX IV: AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HYFLUX LTD AND ITS SUBSIDIARIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

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 2012 and has not been specifically prepared for inclusion in this Offering Circular.

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 statements of financial position of the Group and the Company as at 31 December 2012, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 39 to 114.

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 balance sheets 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 2012 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
25 March 2013

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2012

	Note	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Non-current assets					
Property, plant and equipment	4	207,071	188,571	–	–
Intangible assets	5	42,444	43,876	–	–
Intangible assets arising from service concession arrangements	6	360,366	154,937	–	–
Investments in subsidiaries	7	–	–	177,420	169,420
Investments in joint ventures	8	–	–	3,125	3,125
Investments in associates	9	104,092	108,887	14,109	13,704
Financial receivables	10	704,811	418,320	–	–
Trade and other receivables	11	14,594	15,552	760,736	445,312
Deferred tax assets	12	2,050	2,829	–	–
Total non-current assets		1,435,428	932,972	955,390	631,561
Current assets					
Gross amounts due for contract work	13	119,059	176,910	–	–
Inventories	14	32,456	24,195	–	–
Financial receivables	10	12,548	4,937	–	–
Trade and other receivables, including derivatives	11	209,621	231,093	490,628	729,141
Cash and cash equivalents	15	541,232	662,358	176,216	96,407
Total current assets		914,916	1,099,493	666,844	825,548
Current liabilities					
Trade and other payables, including derivatives	16	318,205	227,840	34,813	135,567
Loans and borrowings	17	64,435	118,121	10,000	88,438
Tax payable		9,152	10,262	2,868	2,983
Total current liabilities		391,792	356,223	47,681	226,988
Net current assets		523,124	743,270	619,163	598,560
Non-current liabilities					
Loans and borrowings	17	1,054,306	712,301	908,519	573,811
Deferred tax liabilities	12	27,217	28,374	–	–
Total non-current liabilities		1,081,523	740,675	908,519	573,811
Net assets		877,029	935,567	666,034	656,310
Equity					
Share capital		605,196	604,740	605,196	604,740
Reserve for own shares		(51,484)	(4,461)	(51,484)	(4,461)
Capital reserve		9,094	6,467	1,858	796
Foreign currency translation reserve		(30,480)	3,635	–	–
Hedging reserve		656	(3,996)	–	–
Employees' share option reserve		22,457	19,647	22,457	19,647
Retained earnings		305,154	294,559	88,007	35,588
Total equity attributable to owners of the Company		860,593	920,591	666,034	656,310
Non-controlling interests		16,436	14,976	–	–
Total equity	18	877,029	935,567	666,034	656,310

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

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Revenue	21	682,384	481,975
Other income		6,964	8,064
Changes in inventories of finished goods and work-in-progress		792	(408)
Raw materials and consumables used and subcontractors' cost		(413,496)	(259,473)
Staff costs		(85,924)	(60,040)
Depreciation, amortisation and impairment		(29,392)	(36,637)
Other expenses		(60,123)	(50,067)
Finance costs	22	(28,460)	(22,597)
Share of profit of associates, net of income tax		4,253	1,226
Profit before income tax	23	76,998	62,043
Tax expense	24	(12,285)	(6,318)
Profit for the year		64,713	55,725
Profit attributable to:			
Owners of the Company		60,994	53,027
Non-controlling interests		3,719	2,698
Profit for the year		64,713	55,725
Earnings per share (cents)			
Basic earnings per share	25	4.43	4.30
Diluted earnings per share	25	4.42	4.28

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012 $'000	2011 $'000
Profit for the year	64,713	55,725
Other comprehensive income		
Foreign currency translation differences for foreign operations	(35,609)	18,831
Share of hedging reserve of associates	499	342
Effective portion of changes in fair value of cash flow hedges	3,001	(778)
Net change in fair value of cash flow hedges transferred to profit or loss	1,152	–
Other comprehensive income for the year, net of income tax	(30,957)	18,395
Total comprehensive income for the year	33,756	74,120
Total comprehensive income attributable to:		
Owners of the Company	31,072	70,863
Non-controlling interests	2,684	3,257
Total comprehensive income for the year	33,756	74,120

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	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 owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
Group										
At 1 January 2012	604,740	(4,461)	6,467	3,635	(3,996)	19,647	294,559	920,591	14,976	935,567
Total comprehensive income for the year										
Profit for the year	–	–	–	–	–	–	60,994	60,994	3,719	64,713
Other comprehensive income										
Foreign currency translation differences for foreign operations	–	–	–	(34,574)	–	–	–	(34,574)	(1,035)	(35,609)
Share of hedging reserve of associates	–	–	–	–	499	–	–	499	–	499
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	3,001	–	–	3,001	–	3,001
Net change in fair value of cash flow hedges transferred to profit or loss	–	–	–	–	1,152	–	–	1,152	–	1,152
Total comprehensive income for the year	–	–	–	(34,574)	4,652	–	60,994	31,072	2,684	33,756

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

Group	Note	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 owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
Transactions with owners, recognised directly in equity											
Contributions by and distributions to owners											
Dividends paid/ payable	18	–	–	–	–	–	–	(47,646)	(47,646)	(1,224)	(48,870)
Issue of shares for cash under Employees' Share Option Schemes		456	–	–	–	–	–	–	456	–	456
Own shares acquired		–	(47,023)	–	–	–	–	–	(47,023)	–	(47,023)
Value of employee services received for issue of share options		–	–	–	–	–	2,810	–	2,810	–	2,810
Liquidation of subsidiary		–	–	(126)	459	–	–	–	333	–	333
Transfer to capital reserve		–	–	2,753	–	–	–	(2,753)	–	–	–
Total transactions with owners		456	(47,023)	2,627	459	–	2,810	(50,399)	(91,070)	(1,224)	(92,294)
At 31 December 2012		605,196	(51,484)	9,094	(30,480)	656	22,457	305,154	860,593	16,436	877,029

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

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 owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 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 year										
Profit for the year	–	–	–	–	–	–	53,027	53,027	2,698	55,725
Other comprehensive income										
Foreign currency translation differences for foreign operations	–	–	–	18,272	–	–	–	18,272	559	18,831
Share of hedging reserve of associates	–	–	–	–	342	–	–	342	–	342
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(778)	–	–	(778)	–	(778)
Total comprehensive income for the year	–	–	–	18,272	(436)	–	53,027	70,863	3,257	74,120

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

Group	Note	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 owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
Transactions with owners, recognised directly in equity											
Contributions by and distributions to owners											
Dividends paid/ payable	18	–	–	–	–	–	–	(47,908)	(47,908)	–	(47,908)
Issue of shares for cash under Employees' Share Option Scheme		4,697	–	–	–	–	–	–	4,697	–	4,697
Issue of Class A Cumulative Perpetual Preference Shares (CPS)		392,569	–	–	–	–	–	–	392,569	–	392,569
Own shares acquired		–	(3,169)	–	–	–	–	–	(3,169)	–	(3,169)
Value of employee services received for issue of share options		–	–	–	–	–	1,038	–	1,038	–	1,038
Transfer to capital reserve		–	–	1,715	–	–	–	(1,715)	–	–	–
Capital contributions from non-controlling interests of a subsidiary		–	–	–	–	–	–	–	–	50	50
Liquidation of subsidiaries		–	–	–	–	–	–	–	–	(337)	(337)
Total transactions with owners		397,266	(3,169)	1,715	–	–	1,038	(49,623)	347,227	(287)	346,940
At 31 December 2011		604,740	(4,461)	6,467	3,635	(3,996)	19,647	294,559	920,591	14,976	935,567

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Profit before income tax		76,998	62,043
Adjustments for:			
Allowance for inventory obsolescence	14	644	113
Amortisation of transaction costs related to borrowings		636	–
Depreciation, amortisation and impairment		29,392	36,637
Employees' share option expense		2,810	1,038
Fair value loss on derivative financial instruments		895	594
Finance costs		28,460	22,597
Financial receivables written off		–	3,056
Gain on sale of property, plant and equipment		(5,223)	(11,899)
Impairment of trade and other receivables		520	2,889
Intangible assets written off		35	25
Interest income		(3,312)	(3,041)
Loss/(gain) on liquidation of subsidiaries		603	(296)
Share of profit of associates, net of income tax		(4,253)	(1,226)
		128,205	112,530
Change in inventories		(9,764)	1,576
Change in gross amounts due for contract work		58,187	75,747
Change in trade and other receivables		22,494	(49,861)
Change in trade and other payables		71,776	25,595
Cash from operating activities before service concession arrangement projects		270,898	165,587
Change in financial receivables from service concession arrangements		(294,102)	(194,308)
Change in intangible assets arising from service concession arrangements		(209,274)	(20,052)
Cash used in operating activities after service concession arrangement projects		(232,478)	(48,773)
Income tax paid		(11,398)	(7,373)
Net cash used in operating activities		(243,876)	(56,146)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Cash flows from investing activities			
Acquisition of intangible assets		(5,901)	(5,094)
Acquisition of property, plant and equipment		(39,878)	(53,366)
Additional investment in an associate		–	(33,079)
Capital contribution from non-controlling interests of a subsidiary		–	50
Change in amounts due from related parties (non-trade)		–	(427)
Dividends received from associates		1,770	1,470
Interest received		1,757	2,657
Net cash outflow from liquidation of subsidiaries		–	(178)
Proceeds from sale of other investments		–	2,429
Proceeds from sale of property, plant and equipment		7,835	26,280
Net cash used in investing activities		(34,417)	(59,258)
Cash flows from financing activities			
Dividends paid		(47,646)	(47,908)
(Increase)/decrease in deposits pledged		(9,589)	204
Interest paid		(36,191)	(17,702)
Net proceeds from CPS issue		–	392,569
Proceeds from borrowings		653,842	605,085
Proceeds from exercise of share options		456	4,697
Purchases of treasury shares		(47,023)	(3,169)
Repayment of borrowings		(371,619)	(399,125)
Net cash from financing activities		142,230	534,651
Net (decrease)/increase in cash and cash equivalents		(136,063)	419,247
Cash and cash equivalents at 1 January		641,415	222,082
Effect of exchange rate fluctuations on cash held		(15,165)	86
Cash and cash equivalents at 31 December	15	490,187	641,415

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 25 March 2013.

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 Innovation Centre, 80 Bendemeer Road, Singapore 339949.

The financial statements of the Group as at and for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the Group and individually as Group entities) and the Group's interests in associates and joint ventures.

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.

Energy

Design, building and operation of power plants and trading in the electricity markets.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with the 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.

NOTES TO THE FINANCIAL STATEMENTS

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, US dollars 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 are included in the following notes:

Note 4	–	residual values and useful lives of property, plant and equipment;
Note 5	–	useful lives and recoverability of intangible assets;
Notes 4 and 5	–	key assumptions used in discounted cash flow projections;
Note 20	–	recoverability of trade and other receivables; and
Note 31	–	contingencies.

2.5 Changes in accounting policies

The Group has adopted all the new or revised FRSs that became mandatory from 1 January 2012. The adoption of these new FRSs has no significant impact to the Group.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 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.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the acquisition date. The measurement basis taken is elected on a transaction-by-transaction basis. All other non-controlling interests are measured at acquisition-date fair value or, when applicable, on the basis specified in another standard.

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.

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. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

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

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies of these entities. 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 cost of investments includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income 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 zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation to fund the associate's operations or has made payments on behalf of the associate.

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 in the separate financial statements

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 end of the reporting date are retranslated 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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences which are recognised in other comprehensive income arising on the retranslation of available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss); and qualifying cash flow hedges to the extent the hedge is effective.

NOTES TO THE FINANCIAL STATEMENTS

Foreign operations

The assets and liabilities of foreign operations, excluding goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the end of the reporting date. The income and expenses of foreign operations 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 exchange rates at the end of the reporting period. 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 foreign 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 to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item that are 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 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 (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date 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 classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

<u>Loans and receivables</u>

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 cash and cash equivalents, trade and other receivables, including service concession receivables, and gross amounts due from contract work.

NOTES TO THE FINANCIAL STATEMENTS

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits.

For the purpose of the statement of cash flows, pledged deposits are excluded whilst bank overdrafts that are repayable in demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

Service concession arrangements

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, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration (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 or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Non-derivative financial liabilities

The Group initially recognised debt securities issued and subordinated liabilities on the date that they are originated. Financial liabilities for contingent consideration payable in a business combination are recognised at the acquisition date. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, 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 classifies non-derivative financial liabilities into the other financial liabilities category. 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.

Other financial liabilities comprise loans and borrowings, and trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS

Intra-group financial guarantees

Financial guarantees are financial instruments issued by the Group that require the issuer to make specified payments to reimburse the holder for the loss it incurs 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 profit or loss.

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.

Preference share capital

Preference share capital is classified as equity as it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Board of Directors.

Repurchase, disposal and reissue 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 in the reserve for own share account. 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 derivative as the hedging instruments, 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 and the hedged risk, 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, of 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 attributable to the hedged risk, 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 profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

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.

<u>Cash flow hedges</u>

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. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases, the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

<u>Separable embedded derivatives</u>

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

<u>Other non-trading derivatives</u>

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, 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, when the Group has an obligation to move the asset or restore the site, an estimate of 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 equity 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.

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

NOTES TO THE FINANCIAL STATEMENTS

Subsequent costs

The cost of replacing a component 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 component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component 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 based on the cost of an asset, less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component 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.

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready to use.

The estimated useful lives for the current and comparative years 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 ranging from 5 to 36 years
Furniture and fittings	-	4 to 5 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.5 Intangible assets

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

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

Amortisation

Amortisation is calculated based on 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 years are as follows:

Intellectual property rights	-	10 years
Capitalised development costs	-	8 years
Licensing fees	-	10 to 20 years
Service concession arrangements	-	10 to 25 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period 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 for the use of the infrastructure to the end of the concession period.

3.6 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 are not recognised in the Group's statement of financial position.

3.7 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 equity 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.

3.8 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 for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, the difference is presented as part of trade and other payables in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

3.9 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period 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.

Loans and receivables

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

In assessing collective impairment, the Group uses historical trends of the probability of default, the 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 loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to 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 cumulative impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed. The amount of the reversal is recognised in profit or loss. However, 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 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, then 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. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

The recoverable amount of an asset or CGU 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 or CGU. 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 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 testing is performed 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 and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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 CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) 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.

3.10 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 generally 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.

Intangible assets and property, plant and equipment once classified as held for sale are not amortised or depreciated. In addition, equity accounting of associates ceases once classified as held for sale.

3.11 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 related services are rendered by employees.

NOTES TO THE FINANCIAL STATEMENTS

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.

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 performance 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 become unconditionally 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.

3.12 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.

3.13 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

Sale of goods

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 significant risks and rewards of ownership have been transferred to the customer, 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 profit or loss using the effective interest method.

Finance lease income

Finance lease income is recognised on 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 from funds invested (including available-for-sale financial assets) is recognised as it accrues as other income in profit or loss, using the effective interest method.

3.14 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.

3.15 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

3.16 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.

3.17 Tax

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:

- temporary differences on 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;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that the Group is able to control the timing of reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. 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 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.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that such a determination is made.

NOTES TO THE FINANCIAL STATEMENTS

3.18 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 year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees and directors. Both basic and diluted EPS of the Group are adjusted for the effect of any provision for preference shares dividends.

3.19 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 (the chief operating decision maker) 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's 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 tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

3.20 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 2012, and have not been applied in preparing these financial statements. Those new standards, amendments to standards and interpretations that are not expected to have a significant effect on the financial statements of the Group and the Company in future financial periods, and which the Group does not plan to early adopt except as set out below:

FRS 110 *Consolidated Financial Statements,*
FRS 111 *Joint Arrangements,*
FRS 112 *Disclosure of Interests in Other Entities,*
Revised FRS 27 *Separate Financial Statements, and*
Revised FRS 28 *Investments in Associates and Joint Ventures*

The Group will early adopt these FRSs from the financial period beginning 1 January 2013. These FRS's mandatory effective date would have been from 1 January 2014 onwards.

FRS 110 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power with the investee. FRS 110 introduces a single control model with a series of indicators to assess control. FRS 110 also adds additional context, explanation and application guidance based on the principle of control.

The Group has re-evaluated its involvement with investees under the new control model. Based on its assessment, there are no changes to the existing classification of its investments in the various investees.

NOTES TO THE FINANCIAL STATEMENTS

FRS 111 establishes the principles for classification and accounting of joint arrangements. The adoption of this standard would require the Group to re-assess and classify its joint arrangements as either joint operations or joint ventures based on its rights and obligations arising from the joint arrangements. Under this standard, interests in joint ventures will be accounted for using the equity method whilst interests in joint operations will be accounted for using the applicable FRSs relating to the underlying assets, liabilities, revenue and expense items arising from the joint operations.

The Group has re-evaluated the rights and obligations of the parties to respective existing joint arrangements and has determined that the parties in the respective joint arrangements have rights to the net assets of the arrangements. Accordingly, all the existing joint arrangements will be classified as joint ventures under FRS 111 and will be accounted for using the equity method.

The Group currently accounts for its investments in joint arrangements using proportionate consolidation method. Arising from the application of FRS 111, all the existing joint arrangements will be classified as joint venture and will be accounted for using the equity method.

These changes will be applied retrospectively and prior periods in the Group's 2013 financial statements will be restated. The effect of the application of FRS 111 is decreases in total revenue of $31.7 million for 2012; and total assets and total liabilities as at 31 December 2012 of $200.1 million respectively. There will be no change to the Group's net assets as at 31 December 2012 and net profits for 2012.

FRS 112 sets out the disclosures required to be made in respect of all forms of an entity's interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The adoption of this standard would result in more extensive disclosures being made in the Group's financial statements in respect of its interests in other entities; as FRS 112 is primarily a disclosure standard, there will be no financial impact on the results and financial position of the Group and the Company upon early adoption of this standard by the Group in 2013. The Group is currently collating the information of the additional disclosures required.

NOTES TO THE FINANCIAL STATEMENTS

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 2011		40,350	2,883	11,567	2,558	73,376	2,214	67,412	200,360
Additions		4,679	197	735	95	1,712	356	45,592	53,366
Transfers		10,202	(10)	715	45	4,767	(53)	(15,666)	–
Transfer from/(to) intangible assets	5	7,057	–	–	–	–	–	(89)	6,968
Disposals		(14,399)	(434)	(157)	(212)	(4,794)	(7)	(323)	(20,326)
Effect of movements in exchange rates		86	37	(155)	20	3,017	107	2,438	5,550
At 31 December 2011 and 1 January 2012		47,975	2,673	12,705	2,506	78,078	2,617	99,364	245,918
Additions		2,051	191	939	1,167	20,981	2,492	18,279	46,100
Transfers		1,177	–	622	367	54,261	110	(56,537)	–
Disposals		(1,386)	(292)	(588)	(556)	(427)	(232)	(2,447)	(5,928)
Effect of movements in exchange rates		(1,405)	(119)	(129)	(60)	(2,806)	(88)	(2,709)	(7,316)
At 31 December 2012		48,412	2,453	13,549	3,424	150,087	4,899	55,950	278,774

NOTES TO THE FINANCIAL STATEMENTS

	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
Accumulated depreciation and impairment losses									
At 1 January 2011		17,201	1,557	7,614	1,695	10,402	1,109	4,956	44,534
Depreciation for the year		5,453	466	2,354	245	3,505	363	–	12,386
Disposals		(4,046)	(381)	(148)	(177)	(749)	(107)	–	(5,608)
Impairment loss		–	–	–	–	–	–	3,717	3,717
Transfer		–	(4)	–	(4)	–	8	–	–
Transfer from intangible assets	5	1,157	–	–	–	–	–	–	1,157
Effect of movements in exchange rates		5	23	(92)	10	1,200	15	–	1,161
At 31 December 2011 and 1 January 2012		19,770	1,661	9,728	1,769	14,358	1,388	8,673	57,347
Depreciation for the year		5,174	380	1,909	347	5,270	571	–	13,651
Disposals		(1,336)	(240)	(568)	(542)	(408)	(217)	–	(3,311)
Impairment loss		–	–	–	–	–	–	5,321	5,321
Effect of movements in exchange rates		(520)	(82)	(89)	(38)	(432)	(144)	–	(1,305)
At 31 December 2012		23,088	1,719	10,980	1,536	18,788	1,598	13,994	71,703
Carrying amounts									
At 1 January 2011		23,149	1,326	3,953	863	62,974	1,105	62,456	155,826
At 31 December 2011 and 1 January 2012		28,205	1,012	2,977	737	63,720	1,229	90,691	188,571
At 31 December 2012		25,324	734	2,569	1,888	131,299	3,301	41,956	207,071

NOTES TO THE FINANCIAL STATEMENTS

	Computers $'000	Furniture and fittings $'000	Total $'000
Company			
Cost			
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	1,018	11	1,029
Accumulated depreciation			
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	1,018	11	1,029
Carrying amounts			
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	–	–	–

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.

Impairment loss

In 2012, 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 2013. 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 2015 using a pre-tax discount rate of 13% (2011: 11%). Based on the assessment, the Group recognised an impairment loss of $5,321,000 (2011: $3,717,000). The production plant is included in the People's Republic of China Industrial (PRC) CGU.

The calculation of the value in use was based on the cash flows that were projected from financial budgets approved by management covering a five-year period. The key assumptions made are regarding the commencement period of the production plant, revenue and costs.

The anticipated annual revenue growth included in the cash flow projections was 6% (2011: 5%) for the years 2015 to 2017 (2011: 2013 to 2016). From 2018 (2011: 2017) onwards, management has assumed that the revenue would remain constant. The costs are assumed to increase with the increase in revenue growth adjusted for the trend of the raw material prices based upon the published market rates of the futures.

NOTES TO THE FINANCIAL STATEMENTS

Sensitivity to changes in assumptions

Following the impairment in the PRC CGU, the recoverable amount is equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to further impairment.

Property, plant and equipment under construction

In 2011, the Group commenced the construction of its new headquarters and research center. In 2012, total capitalised construction costs of the new premises amounting to $49,836,000 was transferred to leasehold properties and improvements upon completion of the construction.

Included in the carrying value of the new premises was capitalised borrowing costs related to the acquisition of the land and the construction of the new premises amounting to $1,085,000 (2011: $652,000), with a capitalisation rate of 2.41% (2011: 2.09%).

5 INTANGIBLE ASSETS

	Note	Goodwill $'000	Intellectual property rights $'000	Development costs $'000	Licensing fees $'000	Total $'000
Group						
Cost						
At 1 January 2011		22,408	4,860	52,643	8,399	88,310
Additions		–	40	–	–	40
Disposal of subsidiaries to a joint venture		1,124	–	–	–	1,124
Additions – internally developed		–	–	3,930	–	3,930
Transfer to property, plant and equipment	4	–	–	(6,968)	–	(6,968)
Disposals		–	–	(147)	–	(147)
Effect of movements in exchange rates		–	2	(1)	(18)	(17)
At 31 December 2011 and 1 January 2012		23,532	4,902	49,457	8,381	86,272
Additions		–	71	–	–	71
Additions – internally developed		–	–	5,101	–	5,101
Liquidation of subsidiary		(1,146)	–	–	–	(1,146)
Disposals		–	(295)	(3,461)	(3,898)	(7,654)
Effect of movements in exchange rates		–	(19)	(80)	(223)	(322)
At 31 December 2012		22,386	4,659	51,017	4,260	82,322

NOTES TO THE FINANCIAL STATEMENTS

	Note	Goodwill $'000	Intellectual property rights $'000	Development costs $'000	Licensing fees $'000	Total $'000
Accumulated amortisation and impairment losses						
At 1 January 2011		3,927	999	16,836	4,473	26,235
Amortisation for the year		–	59	5,130	324	5,513
Impairment loss		8,484	–	3,326	–	11,810
Disposals		–	–	(89)	–	(89)
Transfer to property, plant and equipment	4	–	–	(1,157)	–	(1,157)
Effect of movements in exchange rates		–	2	82	–	84
At 31 December 2011 and 1 January 2012		12,411	1,060	24,128	4,797	42,396
Amortisation for the year		–	220	4,250	310	4,780
Impairment loss		–	–	1,451	–	1,451
Disposals		–	(260)	(3,461)	(3,898)	(7,619)
Liquidation of subsidiary		(954)	–	–	–	(954)
Effect of movements in exchange rates		–	74	(175)	(75)	(176)
At 31 December 2012		11,457	1,094	26,193	1,134	39,878
Carrying amounts						
At 1 January 2011		18,481	3,861	35,807	3,926	62,075
At 31 December 2011 and 1 January 2012		11,121	3,842	25,329	3,584	43,876
At 31 December 2012		10,929	3,565	24,824	3,126	42,444

	Intellectual property rights $'000	Licensing fees $'000	Total $'000
Company			
Cost			
At 1 January 2011	1,779	137	1,916
Disposals	(1,779)	(137)	(1,916)
At 31 December 2011, 1 January 2012 and 31 December 2012	–	–	–
Accumulated amortisation			
At 1 January 2011	96	41	137
Amortisation for the year	18	14	32
Disposals	(114)	(55)	(169)
At 31 December 2011, 1 January 2012 and 31 December 2012	–	–	–
Carrying amounts			
At 1 January 2011	1,683	96	1,779
At 31 December 2011, 1 January 2012 and 31 December 2012	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

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. In 2011, development costs with carrying amount of $5,811,000 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

Annually, the management will perform specific review on the development projects to identify projects that no longer meet the recognition criteria set forth in the FRS.

Accordingly, in 2012, taking into consideration the changes in the Group's business plan, an impairment loss of $1,451,000 (2011: $3,326,000) was recognised in profit or loss.

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 26. The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	2012 **$'000**	**2011** **$'000**
Singapore – Others	–	192
Kingdom of Saudi Arabia – Industrial	1,585	1,585
People's Republic of China – Municipal	9,344	9,344
	10,929	11,121

NOTES TO THE FINANCIAL STATEMENTS

In 2012, following a management review of the business portfolio, no impairment loss was recognised in profit or loss. Impairment losses for 2011 were as follows:

	2012 $'000	2011 $'000
Industrial		
- The Netherlands	–	2,402
- Kingdom of Saudi Arabia	–	4,217
- People's Republic of China	–	1,865
	–	8,484

The Netherlands Industrial CGU

In 2011, management had fully written off the carrying amount of goodwill and recorded an impairment loss against the remaining goodwill amount from the Netherlands Industrial CGU of $2,402,000. As at 31 December 2012, the carrying amount of the goodwill from the Netherlands Industrial CGU was $Nil.

Kingdom of Saudi Arabia Industrial CGU

The recoverable amount of the Kingdom of Saudi Arabia Industrial CGU was determined based upon the fair value less costs to sell method. The fair value less costs to sell has been estimated based on indicative quotes obtained from potential buyers. Based on this basis of estimated recoverable amount, the Group recorded an impairment loss of $4,217,000 to the goodwill arising from Kingdom of Saudi Arabia Industrial CGU in 2011.

People's Republic of China Municipal CGU

The recoverable amounts of the People's Republic of China Municipal CGU were based on the 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 2012 were determined in a similar manner as in 2011.

Calculation of value in use is derived from the financial projections approved by management with key assumptions made relating to forecast period, revenue and costs, growth rates and discount rates. Cash flows were projected over 20 to 30 years in accordance with the duration of the concession agreements.

The anticipated annual revenue growth included in the cash flow projections was 5% (2011: 5%). The forecast revenue and costs, and growth rates are based on past performance of operating plants, expectations of market development as well as industry reports.

A pre-tax discount rate of 10% (2011: 10%) was applied in determining the recoverable amounts of the CGUs and reflect specific risks related 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

6 INTANGIBLE ASSETS ARISING FROM SERVICE CONCESSION ARRANGEMENTS

	$'000
Group	
Cost	
At 1 January 2011	129,934
Additions	22,769
Effect of movements in exchange rates	6,400
At 31 December 2011 and 1 January 2012	159,103
Additions	217,825
Effect of movements in exchange rates	(8,504)
At 31 December 2012	368,424
Accumulated amortisation	
At 1 January 2011	440
Amortisation for the year	3,211
Effect of movements in exchange rates	515
At 31 December 2011 and 1 January 2012	4,166
Amortisation for the year	4,189
Effect of movements in exchange rates	(297)
At 31 December 2012	8,058
Carrying amounts	
At 1 January 2011	129,494
At 31 December 2011 and 1 January 2012	154,937
At 31 December 2012	360,366

At 31 December 2012, the Group owns water plants in PRC, including water treatment plants (WTPs) and wastewater treatment plants (WWTPs), through the special project companies (SPCs) incorporated in PRC. 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 10). 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

The service concession agreement does not contain a renewal option. The standard rights of the grantor to terminate the agreement include poor performance by the Group and in the event of a material breach in the terms of the agreement. The standard rights of the Group to terminate the agreement include failure of the grantor to make payment under the agreement, a material breach in the terms of the agreement, and any changes in law that would render it impossible for the Group to fulfill its obligations under the agreement.

7 INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	**2011**
	$'000	**$'000**
Unquoted equity securities, at cost	164,011	156,011
Impairment losses	(11,100)	(11,100)
	152,911	144,911
Loans to subsidiaries	24,509	24,509
	177,420	169,420

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.

In 2012, the Company has assessed the recoverable amount of its investments in subsidiaries that have been loss-making since the previous financial years. The recoverable amount was estimated based on 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 additional impairment was required in 2012.

NOTES TO THE FINANCIAL STATEMENTS

Details of major subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Ownership interest	
		2012	2011
		%	%
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
TuaSpring Pte Ltd	Singapore	100	100
Hyflux Engineering Pte Ltd	Singapore	100	100
Held through subsidiaries			
Hydrochem Engineering (Shanghai) Co., Ltd	People's Republic of China (PRC)	100	100
Hyflux Filtech (Shanghai) Co., Ltd	PRC	71	71
Hyflux Unitech (Shanghai) Co., Ltd	PRC	71	71
Hyflux Hi-tech Product (Yangzhou) Co., Ltd	PRC	100	100
Hyflux NewSpring Construction Engineering (Shanghai) Co., Ltd	PRC	100	100
Hyflux Engineering (Shanghai) Co., Ltd	PRC	100	100
Hyflux-TJSB Algeria SPA	Algeria	51	51
Hyflux Engineering Algeria EURL	Algeria	100	100
Sinolac (Huludao) Biotech Co., Ltd	PRC	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 Hyflux Engineering Algeria EURL. Their respective statutory auditors are Shanghai Hongyi CPA Co., Ltd, PRC and Guerza Rafik Expert Comptable G.R.E.C.

NOTES TO THE FINANCIAL STATEMENTS

8 INVESTMENTS IN JOINT VENTURES

	Company 2012 $'000	Company 2011 $'000
Unquoted equity securities, at cost	3,125	3,125

Details of major joint ventures are as follows:

Name of joint venture	Country of incorporation	Ownership interest 2012 %	Ownership interest 2011 %
Held by the Company			
Hyflux Marmon Development Pte. Ltd.	Singapore	50	50
Held through subsidiaries			
Galaxy NewSpring Pte. Ltd.	Singapore	50	50
H.J. NewSpring Limited	Hong Kong	50	50
Held through joint ventures			
Tianjin Dagang NewSpring Co., Ltd	People's Republic of China (PRC)	50	50
Galaxy Newspring Capital Pte. Ltd.	Singapore	50	50
Hyflux Water Trust	Singapore	50	50
Galaxy Operation and Management (Shanghai) Co., Ltd	PRC	50	50
Hyflux NewSpring (Dezhou) Co., Ltd	PRC	50	50
Hyflux NewSpring (LiaoYang GongChangLing) Co., Ltd.	PRC	50	50
Hyflux NewSpring Sewage Disposal (Rudong) Co., Ltd	PRC	50	50
Hyflux NewSpring (Tianjin) Co., Ltd.	PRC	50	50
Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd	PRC	50	50
Hyflux NewSpring (Yangzhou) Co., Ltd	PRC	50	50
Hyflux NewSpring (Zunhua) Co., Ltd.	PRC	50	50
Langfang Hyflux NewSpring Co., Ltd.	PRC	50	50
Wuxi Hyflux NewSpring Sewage Disposal Co., Ltd	PRC	50	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 Co., Ltd and the statutory auditor is KPMG Huazhen, Shanghai, PRC.

NOTES TO THE FINANCIAL STATEMENTS

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

	2012 $'000	2011 $'000
Assets and liabilities		
Non-current assets	396,925	405,518
Current assets	68,030	53,603
Total assets	464,955	459,121
Non-current liabilities	(143,539)	(131,904)
Current liabilities	(56,543)	(48,678)
Total liabilities	(200,082)	(180,582)
Results		
Revenue	31,731	38,218
Expenses	(37,628)	(39,264)
Loss before income tax	(5,897)	(1,046)
Contingent liabilities in respect of bank guarantees for which the Group is liable	(57,257)	(62,652)

9 INVESTMENTS IN ASSOCIATES

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Unquoted equity securities	104,092	108,887	14,109	13,704

Unquoted equity securities of the Group with a carrying amount of $81,686,000 (2011: $88,195,000) have been pledged as collateral for banking facilities granted to the associates.

Details of major associates are as follows:

Name of associate	Country of incorporation	Ownership interest 2012 %	Ownership interest 2011 %
Held by the Company			
SingSpring Trust	Singapore	30	30

NOTES TO THE FINANCIAL STATEMENTS

Name of associate	Country of incorporation	Ownership interest	
		2012	2011
		%	%
Held through subsidiaries			
Ningxia Hypow Bio-Technology Co., Ltd	People's Republic of China	25	25
Tlemcen Desalination Investment Company SAS	France	30	30
Tahlyat Myah Magtaa SPA	Algeria	47	47

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 SGX-ST's 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. None of the Group's associates is considered significant in accordance with SGX-ST's Listing Manual.

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

	2012	2011
	$'000	$'000
Assets and liabilities		
Total assets	340,297	345,251
Total liabilities	(241,217)	(296,566)
Results		
Revenue	29,544	27,227
Profit after income tax	4,253	1,226

10 FINANCIAL RECEIVABLES

	Group	
	2012	2011
	$'000	$'000
Non-current		
Financial receivables	704,811	418,320
Current		
Financial receivables	12,548	4,874
Lease receivables	–	63
	12,548	4,937
Total	717,359	423,257

NOTES TO THE FINANCIAL STATEMENTS

The financial receivables represent the unconditional rights to receive cash or other financial asset from or at the direction of the grantors for the construction or upgrade services provided. See note 6 for the background of the service concession arrangements.

At 31 December 2012, the Group has no receivables under finance lease. In 2011, the Group had receivables under finance leases as follows:

	Minimum lease payment receivables 2011 $'000	Unearned finance income 2011 $'000	Present value of minimum lease payment receivables 2011 $'000
Group			
Within one year	82	19	63

Under the terms of the lease arrangements, no contingent rents were recognised and there were no unguaranteed residual values accruing to the Group.

The weighted average effective interest rate of the lease receivables at 31 December 2011 was 5.5% per annum.

11 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Non-current				
Trade receivables	–	66	–	–
Amounts due from:				
- subsidiaries (non-trade)	–	–	760,736	445,312
- an associate (non-trade)	14,594	15,486	–	–
	14,594	15,552	760,736	445,312
Current				
Trade receivables	99,375	90,691	–	–
Prepayments	6,477	4,927	3,631	3,276
Deposits	2,425	2,512	–	–
Advances to suppliers	28,768	19,826	–	–
Staff advances	231	323	–	–
Other receivables	9,822	12,801	12	–
Derivatives	21	546	–	514
Amounts due from:				
- subsidiaries (trade)	–	–	17,073	17,548
- subsidiaries (non-trade)	–	–	464,295	701,871
- joint ventures (trade)	34,634	30,015	–	–
- joint ventures (non-trade)	1,815	1,688	509	527
- associates (trade)	15,328	64,955	–	–
- an associates (non-trade)	10,725	2,809	5,108	5,405
	209,621	231,093	490,628	729,141
Total	224,215	246,645	1,251,364	1,174,453

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012, trade receivables for the Group included a retention sum of $10,001,000 (2011: $9,353,000) relating to construction contracts in progress.

Included in current trade receivables of the Group are note receivables of $5,187,000 (2011: $6,356,000) relating to bank promissory notes for payment within the next six months.

Outstanding balances with subsidiaries, joint ventures and associates are unsecured. There is no allowance for doubtful debts arising from the outstanding balances.

Except for balances amounting to $744,858,000 (2011: $428,462,000) that bear interest at rates of 5% to 6.5% (2011: 5% to 6.5%), remaining 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.

The non-current non-trade amount due from an associate bears interest at rate of 5.94% (2011: 5.94%) per annum and is repayable in 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 20.

NOTES TO THE FINANCIAL STATEMENTS

12 DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Tax losses	18,914	17,880	–	–
Deductible temporary differences	18	18	–	–
	18,932	17,898	–	–

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. Tax losses of $8,358,000 (2011: $7,545,000) expire in 2013 to 2017 (2011: 2012 to 2016). Remaining 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	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Group				
Property, plant and equipment	–	–	1,009	182
Intangible assets	–	–	4,056	4,445
Intangible assets arising from service concession arrangements	(417)	(417)	22,152	23,747
Tax loss carry-forwards	(1,633)	(2,412)	–	–
Deferred tax (assets)/liabilities	(2,050)	(2,829)	27,217	28,374

NOTES TO THE FINANCIAL STATEMENTS

Movement in temporary differences during the year

Group	Balance as at 1 January 2011 $'000	From acquisition of subsidiaries by a joint venture $'000	Recognised in profit or loss (note 24) $'000	Exchange differences $'000	Balance as at 31 December 2011 $'000	Recognised in profit or loss (note 24) $'000	Exchange differences $'000	Balance as at 31 December 2012 $'000
Property, plant and equipment	791	-	(609)	-	182	827	-	1,009
Intangible assets	3,732	-	713	-	4,445	(389)	-	4,056
Intangible assets arising from service concession arrangements	20,348	2,729	(613)	866	23,330	(296)	(1,299)	21,735
Tax loss carry-forwards	(847)	-	(1,536)	(29)	(2,412)	689	90	(1,633)
	24,024	2,729	(2,045)	837	25,545	831	(1,209)	25,167

NOTES TO THE FINANCIAL STATEMENTS

13 GROSS AMOUNTS DUE FOR CONTRACT WORK

	Note	Group 2012 $'000	Group 2011 $'000
Costs incurred and attributable profits		837,243	1,127,765
Progress billings		(730,223)	(964,410)
		107,020	163,355
Comprising of:			
Gross amounts due from contract work		119,059	176,910
Progress payments from customers	16	(12,039)	(13,555)
		107,020	163,355

14 INVENTORIES

	Group 2012 $'000	Group 2011 $'000
Raw materials and consumables	19,267	11,798
Work in progress	8,541	11,010
Finished goods	4,648	1,387
	32,456	24,195

During the year, the write-down of inventories to net realisable value amounted to $644,000 (2011: $113,000) for the Group. The write-down is included as part of other expenses in profit or loss.

15 CASH AND CASH EQUIVALENTS

	Note	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Bank balances		304,280	198,789	170,741	13,782
Fixed deposits with financial institutions		236,952	463,569	5,475	82,625
Cash and cash equivalents in the statements of financial position		541,232	662,358	176,216	96,407
Deposits pledged		(9,589)	–		
Bank overdrafts used for cash management purposes	17	(41,456)	(20,943)		
Cash and cash equivalents in the statement of cash flows		490,187	641,415		

Deposits pledged represent bank balances of certain subsidiaries and joint venture pledged as securities for performance guarantees and credit facilities, respectively.

NOTES TO THE FINANCIAL STATEMENTS

16 TRADE AND OTHER PAYABLES

	Note	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Trade payables		261,378	183,335	–	–
Progress payments from customers	13	12,039	13,555	–	–
Derivatives		81	395	–	354
Accrued expenses		18,725	13,958	1,019	762
Other payables		25,131	15,412	8,219	8,403
Amounts due to:					
- subsidiaries (trade)		–	–	36	41
- subsidiaries (non-trade)		–	–	25,539	126,007
- joint ventures (trade)		623	1,001	–	–
- joint ventures (non-trade)		228	184	–	–
		318,205	227,840	34,813	135,567

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 20.

17 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's and the Company's interest-bearing 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 risks, see note 20.

	Note	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Non-current liabilities					
Secured bank loans		89,178	78,096	–	–
Unsecured bank loans		411,899	180,950	355,290	120,556
Unsecured notes		553,229	453,255	553,229	453,255
		1,054,306	712,301	908,519	573,811
Current liabilities					
Bank overdraft	15	41,456	20,943	–	–
Secured bank loans		9,284	6,482	–	–
Unsecured bank loans		13,695	2,258	10,000	–
Unsecured notes		–	88,438	–	88,438
		64,435	118,121	10,000	88,438
Total		1,118,741	830,422	918,519	662,249

NOTES TO THE FINANCIAL STATEMENTS

Secured bank loans of the Group at 31 December 2012 and 31 December 2011 were secured by land and building of a subsidiary with carrying amount of $67,559,000 (2011: $41,787,000), a joint venture's mortgages of its shares of various subsidiaries and deposits pledged of $2,502,000 (2011: $Nil).

Unsecured bank loans and overdraft of the Group totalling $514,272,000 (2011: $256,291,000) are guaranteed by the Company and a subsidiary of the Group.

Unsecured bank loans of the Company totalling $355,291,000 (2011: $120,556,000) are guaranteed by a subsidiary of the Group.

At the reporting date, the Group does not consider it probable that a claim will be made against the Group under the guarantees as described above.

In 2011, the Company increased the unsecured multi-currency debt established in 2008 from $300 million to $800 million, 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 2012, $555 million (2011: $544 million) of unsecured fixed rate notes were in issue.

Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings are as follows:

				2012		**2011**	
	Currency	**Nominal interest rate**	**Year of maturity**	**Face value $'000**	**Carrying amount $'000**	**Face value $'000**	**Carrying amount $'000**
Group							
Unsecured bank loans	SGD	SIBOR + 1.95%	2017	100,000	99,465	–	–
Unsecured bank loans	SGD	SOR + 1.0%	2014	30,000	30,000	–	–
Unsecured bank loans	USD	LIBOR + 1.66%	2016	125,825	125,825	120,556	120,556
Unsecured bank loans	SGD	LIBOR + 1.66%	2016	25,000	25,000	-	-
Unsecured bank loans	SGD	COF* + 2.25%	2013	50,000	50,000	–	–
Unsecured bank loans	SGD	COF* + 1.75%	2013	10,000	10,000	–	–
Unsecured bank loans	RMB	6.6% - 7.05%	2023	57,725	57,293	63,281	62,652
Secured bank loans	USD	COF* + 2.5%	2012 - 2017	28,585	28,585	33,704	33,704
Secured bank loans	USD	LIBOR + 2.5%	2012 - 2014	70,507	69,877	51,963	50,874
Unsecured bank loans	SGD	COF* + 1.5%	2015	25,000	25,000	–	–
Unsecured bank loans	USD	1.41%-3.73%	2023	3,011	3,011	–	–
Unsecured notes	SGD	3.5% - 5.68%	2014 - 2019	555,000	553,229	543,500	541,693
Bank overdraft	DZD	6% - 9%	2013	41,456	41,456	20,943	20,943
Total loans and borrowings				1,122,109	1,118,741	833,947	830,422

NOTES TO THE FINANCIAL STATEMENTS

	Currency	Nominal interest rate	Year of maturity	2012 Face value $'000	2012 Carrying amount $'000	2011 Face value $'000	2011 Carrying amount $'000
Company							
Unsecured bank loans	SGD	SIBOR + 1.95%	2017	100,000	99,465	–	–
Unsecured bank loans	SGD	SOR + 1.0%	2014	30,000	30,000	–	–
Unsecured bank loans	USD	LIBOR + 1.66%	2016	125,825	125,825	120,556	120,556
Unsecured bank loans	SGD	LIBOR + 1.66%	2016	25,000	25,000	-	-
Unsecured bank loans	SGD	COF* + 2.25%	2013	50,000	50,000	–	–
Unsecured bank loans	SGD	COF* + 1.75%	2013	10,000	10,000	–	–
Unsecured bank loans	SGD	COF* + 1.50%	2015	25,000	25,000	–	–
Unsecured notes	SGD	3.5% - 5.68%	2014 - 2019	555,000	553,229	543,500	541,693
Total loans and borrowings				920,825	918,519	664,056	662,249

COF* : Costs of funds, the rate per annum determined by the bank to be the aggregate of :

i. 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

ii. 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).

18 CAPITAL AND RESERVES

Share capital

	Ordinary shares 2012 No. of shares '000	Ordinary shares 2011 No. of shares '000	CPS* 2012 No. of shares '000	CPS* 2011 No. of shares '000
Group and Company				
On issue at 1 January	858,679	857,931	4,000	–
Issue of CPS	–	–	–	4,000
Exercise of share options	479	3,459	–	–
Purchase of treasury shares	(33,935)	(2,711)	–	–
On issue at 31 December	825,223	858,679	4,000	4,000

* 6% Cumulative Non-convertible Non-voting Perpetual Class A Preference Shares

All shares rank equally with regard to the Company's residual assets, except that CPS shareholders which rank senior to the ordinary shareholders participate only to the extent of the face value of the CPS.

All issued shares are fully paid, with no par value.

NOTES TO THE FINANCIAL STATEMENTS

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. In respect of the Company's shares that are held by the Group, the rights are suspended until these shares are issued.

Issuance of ordinary shares

479,000 (2011: 3,459,000) ordinary shares were issued as a result of the exercise of vested options arising from the 2001 share option programme granted to key management staff. Options were exercised at an average price of $0.953 (2011: $1.364) per option.

All issued shares were fully paid.

CPS

	Group and Company	
	2012	**2011**
	$'000	**$'000**
At 1 January	392,569	–
Proceeds from issue of CPS	–	400,000
Transaction costs	–	(7,431)
At 31 December	392,569	392,569

On 25 April 2011, the Company issued 4,000,000 CPS listed on the Main Board of the Singapore Exchange Securities Trading Limited.

The CPS do not carry the right to vote at general meeting except in certain limited circumstances as specified in the Offer Information Statement dated 13 April 2011 (the OIS) and rank senior to the ordinary shares with regard to the Company's residual assets, to the extent of the face value of the CPS. All issued shares are fully paid.

The CPS carry a dividend rate of 6% per annum of their liquidation preference (being $100 per CPS), payable semi-annually when, as and if declared by the Board, in arrears on 25 April and 25 October of each year, subject to certain conditions specified in the OIS.

The Company has the right, but not the obligation, to redeem the CPS on or after 25 April 2018, at the liquidation preference for each CPS plus accrued but unpaid dividends up to (but excluding) the redemption date. If the CPS are not redeemed by the Company on 25 April 2018, dividends will accrue on the CPS at the rate of 8% per annum of their liquidation preference on and from 25 April 2018.

The CPS are perpetual securities with no maturity date and are not redeemable at the option of the holders of the CPS. The Company may at its sole discretion, redeem the CPS for cash, in whole or in part (on a pro rata basis), under certain circumstances, subject to the terms and conditions of the OIS.

NOTES TO THE FINANCIAL STATEMENTS

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 2012, the Group held 37,146,000 (2011: 3,211,000) of the Company's shares.

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.

(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.

(d) Accumulated amortisation of transaction costs incurred in the issuance of redeemable preference shares.

Foreign currency translation reserve

The translation reserve comprises foreign currency 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.

NOTES TO THE FINANCIAL STATEMENTS

Dividends

The following dividends were declared and paid by the Group and the Company:

For the year ended 31 December

	Group and Company	
	2012	**2011**
	$'000	**$'000**
Final tax-exempt dividend paid of 2.10 cents (2010: 3.50 cents) per share in respect of previous financial year	17,805	30,108
Interim tax-exempt dividend paid of 0.70 cent (2011: 0.67 cent) per share in respect of current financial year	5,775	5,767
$6 (2011: $3) per CPS	24,066	12,033
	47,646	47,908

After the respective reporting dates, the following dividends were proposed by the directors. As at the respective year end, the dividends were not provided for and there were no income tax consequences.

	Group and Company	
	2012	**2011**
	$'000	**$'000**
Final proposed tax-exempt dividend of 2.50 cents (2011: 2.10 cents) per share	20,631	18,032

19 SHARE-BASED PAYMENT

Description of the share-based payment arrangements

At 31 December 2012, the Group has the following share-based payment arrangements:

Share option scheme (equity-settled)

On 27 April 2011, the members of the Company have approved the implementation of new share option scheme (the Scheme) to replace the 2001 Scheme that expired on 26 September 2011. The implementation of the Scheme and replacement of expired scheme do not affect the rights of holders of the options under the expired 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 aggregate number of scheme shares available to Olivia Lum Ooi Lin and her associates (as defined in SGX-ST's Listing Manual) shall not exceed 25% of the total number of scheme shares available under the Scheme. It was in force since 27 September 2011 and shall expire on 26 September 2021.

The Scheme is administered by the Remuneration Committee.

Once these options have vested, the options are exercisable by an employee during a contractual option term of 10 years 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.

The duration of the Scheme 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 under the Schemes are conditional upon various factors including the directors and employees completing their years of service to the Group.

NOTES TO THE FINANCIAL STATEMENTS

Disclosure of share option scheme

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2012 $	Number of options 2012	Weighted average exercise price 2011 $	Number of options 2011
Outstanding at 1 January	1.658	41,713,681	1.656	35,640,369
Forfeited during the year	1.831	(3,072,329)	1.782	(4,517,572)
Exercised during the year	0.953	(478,875)	1.364	(3,437,116)
Granted during the year	1.469	7,305,000	1.631	14,028,000
Option granted but not accepted	1.469	(50,000)	–	–
Outstanding at 31 December	1.623	45,417,477	1.658	41,713,681
Exercisable at 31 December	1.565	22,028,677	1.564	19,588,481

The options outstanding at 31 December 2012 have an exercise price in the range of $0.3997 to $2.4187 (2011: $0.2749 to $2.4187) and a weighted average contractual life of 5.78 years (2011: 6.66 years).

The weighted average share price at the date of exercise for share options exercised in 2012 was $1.366 (2011: $1.990) 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:

Fair value of share options and assumptions

Date of grant of options	**5 March 2012**
Fair value at grant date	$0.405
Share price at grant date	$1.430
Exercise price	$1.469
Expected volatility (weighted average volatility)	46%
Option life (expected weighted average life)	100 days
Expected dividends	2.77%
Risk-free interest rate (based on government bonds)	0.46%

NOTES TO THE FINANCIAL STATEMENTS

20 FINANCIAL INSTRUMENTS

Credit risk

Exposure to credit risk

The carrying amount of financial assets in the statements of financial position represents the Group's and the Company's respective maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Group		Company	
	Note	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Financial receivables	10	717,359	423,257	–	–
Trade receivables	11	99,375	90,757	–	–
Deposits	11	2,425	2,512	–	–
Advances to suppliers	11	28,768	19,826	–	–
Staff advances	11	231	323	–	–
Other receivables	11	9,822	12,801	12	–
Amounts due from:					
- subsidiaries (trade)	11	–	–	17,073	17,548
- subsidiaries (non-trade)	11	–	–	1,225,031	1,147,183
- joint ventures (trade)	11	34,634	30,015	–	–
- joint ventures (non-trade)	11	1,815	1,688	509	527
- associates (trade)	11	15,328	64,955	–	–
- associates (non-trade)	11	25,319	18,295	5,108	5,405
Cash and cash equivalents	15	541,232	662,358	176,216	96,407
Loans and receivables		1,476,308	1,326,787	1,423,949	1,267,070
Derivatives	11	21	546	–	514
Recognised financial assets		1,476,329	1,327,333	1,423,949	1,267,584

The Group's revenue is earned from a wide range of customers whose credit quality have not changed significantly.

The maximum exposure to credit risk for loans and receivables at the reporting date by type of counterparty was:

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Municipal	1,364,204	1,150,088	–	–
Industrial	84,222	138,227	–	–
Subsidiaries	–	–	1,242,104	1,164,731
Joint ventures	–	–	509	527
Associates	–	–	5,108	5,405
Others	27,882	38,472	176,228	96,407
	1,476,308	1,326,787	1,423,949	1,267,070

NOTES TO THE FINANCIAL STATEMENTS

The credit quality of trade and other receivables is assessed based upon the credit policy in place. At the reporting date, the Group and the Company believe that the credit quality of trade and other receivables that were not past due or impaired is of acceptable risk.

The Group does not require collateral in respect of trade and other receivables.

Impairment losses

The ageing of loans and receivables at the reporting date was:

	Gross 2012 $'000	Impairment 2012 $'000	Gross 2011 $'000	Impairment 2011 $'000
Group				
Not past due	1,416,774	–	1,275,441	–
Past due 0 to 60 days	11,702	–	10,271	5
Past due 61 to 180 days	6,530	–	10,249	–
More than 180 days	46,872	5,570	35,753	4,922
	1,481,878	5,570	1,331,714	4,927
Company				
Not past due	1,423,949	–	1,267,070	–

The movement in the allowance for impairment in respect of loans and receivables during the year was as follows:

	Group 2012 $'000	Group 2011 $'000
At 1 January	4,927	5,280
Impairment loss recognised	1,311	1,980
Impairment loss written off	(55)	(1,503)
Impairment loss written back	(455)	(903)
Effect of movements in exchange rates	(158)	73
At 31 December	5,570	4,927

At 31 December 2012, an impairment loss of the Group of $1,311,000 (2011: $1,980,000) relates to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to financial difficulties.

The impairment losses recognised and written back during the year are included as part of other expenses in profit or loss.

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 that are unimpaired at 31 December 2012 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 additional impairment allowance is necessary on the Company's loans and receivables as at 31 December 2012.

NOTES TO THE FINANCIAL STATEMENTS

Cash and cash equivalents

The Group held cash and cash equivalents of $541,232,000 at 31 December 2012 (2011: $662,358,000), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A+ to AA-, based on rating agency Standard & Poor's ratings.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Group	Carrying amount $'000	Cash flows Contractual cash flows $'000	Within 1 year $'000	Between 1 and 5 years $'000	More than 5 years $'000
2012					
Non-derivative financial liabilities					
Bank overdraft	41,456	(44,306)	(44,306)	–	–
Variable interest rate loans	524,056	(580,897)	(37,259)	(498,094)	(45,544)
Fixed interest rate notes	553,229	(667,200)	(23,705)	(359,865)	(283,630)
Trade and other payables*	306,085	(306,085)	(306,085)	–	–
	1,424,826	(1,598,488)	(411,355)	(857,959)	(329,174)
Derivative financial instruments					
Forward exchange contracts (gross-settled)	(21)				
- Outflow		(1,975)	(1,640)	(335)	–
- Inflow		1,989	1,652	337	–
Interest rate swaps used for hedging (net-settled)	81	(81)	(56)	(25)	–
	60	(67)	(44)	(23)	–
2011					
Non-derivative financial liabilities					
Bank overdraft	20,943	(22,427)	(22,427)	–	–
Variable interest rate loans	267,786	(315,818)	(20,799)	(236,586)	(58,433)
Fixed interest rate notes	541,693	(642,636)	(110,674)	(351,302)	(180,660)
Trade and other payables*	213,890	(213,890)	(213,890)	–	–
	1,044,312	(1,194,771)	(367,790)	(587,888)	(239,093)
Derivative financial instruments					
Forward exchange contracts (gross-settled)	(546)				
- Outflow		(80,961)	(80,961)	–	–
- Inflow		81,611	81,611	–	–
Forward exchange contracts (gross-settled)	354				
- Outflow		(38,955)	(38,955)	–	–
- Inflow		38,640	38,640	–	–
Interest rate swaps used for hedging (net-settled)	41	(65)	(41)	(24)	–
	(151)	270	294	(24)	–

* *Exclude derivatives (shown separately) and progress payments from customers.*

NOTES TO THE FINANCIAL STATEMENTS

Company	Carrying amount $'000	Cash flows: Contractual cash flows $'000	Within 1 year $'000	Between 1 and 5 years $'000	More than 5 years $'000
2012					
Non-derivative financial liabilities					
Variable interest rate loans	365,290	(390,712)	(17,219)	(373,493)	–
Fixed interest rate notes	553,229	(667,200)	(23,705)	(359,865)	(283,630)
Trade and other payables	34,813	(34,813)	(34,813)	–	–
	953,332	(1,092,725)	(75,737)	(733,358)	(283,630)
2011					
Non-derivative financial liabilities					
Variable interest rate loans	120,556	(131,365)	(2,358)	(129,007)	–
Fixed interest rate notes	541,693	(642,636)	(110,674)	(351,302)	(180,660)
Trade and other payables*	135,213	(135,213)	(135,213)	–	–
	797,462	(909,214)	(248,245)	(480,309)	(180,660)
Derivative financial instruments					
Forward exchange contracts (gross-settled)	(514)				
- Outflow		(77,910)	(77,910)	–	–
- Inflow		78,527	78,527	–	–
Forward exchange contracts (gross-settled)	354				
- Outflow		(38,955)	(38,955)	–	–
- Inflow		38,640	38,640	–	–
	(160)	302	302	–	–

* *Excludes derivatives (shown separately).*

The maturity analysis shows the undiscounted cash flows of the financial liabilities of the Group and the Company on the basis of their earliest possible contractual maturity.

For derivative financial instruments, the cash inflows/(outflows) represent the contractual undiscounted cash flows relating to these instruments. Gross inflows and outflows are included for derivatives that are gross-settled on a simultaneous basis.

Except for the cash flow arising from the intragroup financial guarantee, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

At the reporting date, the Company does not consider it probable that a claim will be made against the Company under the intragroup financial guarantee.

NOTES TO THE FINANCIAL STATEMENTS

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 2012 US dollars $'000	31 December 2011 US dollars $'000
Group		
Trade and other receivables	160,743	245,732
Cash and cash equivalents	39,873	75,478
Loans and borrowings	(227,298)	(154,260)
Trade and other payables	(156,542)	(96,952)
	(183,224)	69,998
Company		
Trade and other receivables	4,382	302,601
Cash and cash equivalents	19,176	808
Loans and borrowings	(125,825)	(120,556)
Trade and other payables	(152)	(9,912)
	(102,419)	172,941

Sensitivity analysis

A 10% strengthening of the Singapore dollar, as indicated below, against the US dollar at 31 December would have increased equity and profit before income tax in profit or loss 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 2011, although 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 2012				
US dollars (10% strengthening)	18,322	–	10,242	–
31 December 2011				
US dollars (10% strengthening)	(7,000)	–	(17,294)	–

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

Interest rate risk

Profile

At the reporting date, the interest rate profile of the interest-bearing financial instruments was:

	Group Carrying amount 2012 $'000	Group Carrying amount 2011 $'000	Company Carrying amount 2012 $'000	Company Carrying amount 2011 $'000
Fixed rate instruments				
Bank overdraft	(41,456)	(20,943)	–	–
Unsecured notes	(553,229)	(541,693)	(553,229)	(541,693)
	(594,685)	(562,636)	(553,229)	(541,693)
Variable rate instruments				
Variable interest rate loans	(524,056)	(267,786)	(365,290)	(120,556)

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) equity and profit before income tax in profit or loss 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 2011.

	Profit before income tax		Equity	
Group	**75 bp increase $'000**	**75 bp decrease $'000**	**75 bp increase $'000**	**75 bp decrease $'000**
31 December 2012				
Variable rate instruments	(3,943)	3,943	–	–
31 December 2011				
Variable rate instruments	(2,008)	2,008	–	–
Company				
31 December 2012				
Variable rate instruments	(2,744)	2,744	–	–
31 December 2011				
Variable rate instruments	(904)	904	–	–

NOTES TO THE FINANCIAL STATEMENTS

Accounting classifications and fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statements of financial position, are as follows:

Group	Note	Designated at fair value $'000	Loans and receivables $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
31 December 2012						
Cash and cash equivalents	15	–	541,232	–	541,232	541,232
Trade and other receivables*	11	–	217,717	–	217,717	217,888
Financial receivables	10	–	717,359	–	717,359	722,251
Gross amounts due for contract work	13	–	119,059	–	119,059	119,059
Financial assets designated at fair value through profit or loss	11	21	–	–	21	21
		21	1,595,367	–	1,595,388	1,600,451
Secured bank loans	17	–	–	(98,462)	(98,462)	(98,462)
Unsecured bank loans	17	–	–	(425,594)	(425,594)	(425,594)
Unsecured notes	17	–	–	(553,229)	(553,229)	(582,816)
Trade and other payables#	16	–	–	(306,085)	(306,085)	(306,085)
Financial liabilities designated at fair value through profit or loss	16	(81)	–	–	(81)	(81)
Bank overdraft	17	–	–	(41,456)	(41,456)	(41,456)
		(81)	–	(1,424,826)	(1,424,907)	(1,454,494)

* *Excluding derivatives (shown separately) and prepayment.*
\# *Excluding progress payments from customers and derivatives (shown separately).*

NOTES TO THE FINANCIAL STATEMENTS

Group	Note	Designated at fair value $'000	Loans and receivables $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
31 December 2011						
Cash and cash equivalents	15	–	662,358	–	662,358	662,358
Trade and other receivables*	11	–	241,172	–	241,172	241,356
Financial receivables	10	–	423,257	–	423,257	424,527
Gross amounts due for contract work	13	–	176,910	–	176,910	176,910
Financial assets designated at fair value through profit or loss	11	546	–	–	546	546
		546	1,503,697	–	1,504,243	1,505,697
Secured bank loans	17	–	–	(84,578)	(84,578)	(84,578)
Unsecured bank loans	17	–	–	(183,208)	(183,208)	(183,208)
Unsecured notes	17	–	–	(541,693)	(541,693)	(563,951)
Trade and other payables#	16	–	–	(213,890)	(213,890)	(213,890)
Financial liabilities designated at fair value through profit or loss	16	(395)	–	–	(395)	(395)
Bank overdraft	17	–	–	(20,943)	(20,943)	(20,943)
		(395)	–	(1,044,312)	(1,044,707)	(1,066,965)

* *Excluding derivatives (shown separately) and prepayments.*
\# *Excluding progress payments from customers and derivatives (shown separately).*

Company	Note	Designated at fair value $'000	Loans and receivables $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
31 December 2012						
Cash and cash equivalents	15	–	176,216	–	176,216	176,216
Trade and other receivables*	11	–	1,247,733	–	1,247,733	1,247,733
		–	1,423,949	–	1,423,949	1,423,949
Unsecured bank loans	17	–	–	(365,290)	(365,290)	(365,290)
Unsecured notes	17	–	–	(553,229)	(553,229)	(582,816)
Trade and other payables	16	–	–	(34,813)	(34,813)	(34,813)
		–	–	(953,332)	(953,332)	(982,919)

* *Excluding prepayments.*

NOTES TO THE FINANCIAL STATEMENTS

Company	Note	Designated at fair value $'000	Loans and receivables $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
31 December 2011						
Cash and cash equivalents	15	–	96,407	–	96,407	96,407
Trade and other receivables*	11	–	1,170,663	–	1,170,663	1,170,663
Financial assets designated at fair value through profit or loss	11	514	–	–	514	514
		514	1,267,070	–	1,267,584	1,267,584
Unsecured bank loans	17	–	–	(120,556)	(120,556)	(120,556)
Unsecured notes	17	–	–	(541,693)	(541,693)	(563,951)
Trade and other payables#	16	–	–	(135,213)	(135,213)	(135,213)
Financial liabilities designated at fair value through profit or loss	16	(354)	–	–	(354)	(354)
		(354)	–	(797,462)	(797,816)	(820,074)

* *Excluding derivatives (shown separately) and prepayments.*
\# *Excluding derivatives (shown separately).*

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 2012	Group 2011
Amounts due from associates (non-trade)	6.0%	6.0%
Unsecured notes	3.0%	3.0%
Financial receivables	2.18% - 4.78%	2.36% -4.45%

NOTES TO THE FINANCIAL STATEMENTS

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				
31 December 2012				
Derivatives	–	(60)	–	(60)
	–	(60)	–	(60)
31 December 2011				
Derivatives	–	151	–	151
	–	151	–	151
Company*				
31 December 2011				
Derivatives	–	160	–	160
	–	160	–	160

* none as at 31 December 2012

NOTES TO THE FINANCIAL STATEMENTS

21 REVENUE

	Group 2012 $'000	Group 2011 $'000
Construction revenue	605,971	418,530
Operating and maintenance income	49,331	39,001
Sale of goods	16,633	15,576
Finance income	8,294	6,755
Finance lease income	331	394
Others	1,824	1,719
	682,384	481,975

22 FINANCE COSTS

	Group 2012 $'000	Group 2011 $'000
Interest expense - bank loans	28,460	22,597

23 PROFIT BEFORE INCOME TAX

The following items have been included in arriving at profit before income tax:

	Group 2012 $'000	Group 2011 $'000
Net foreign currency exchange loss	3,151	2,123
Rental income from leasehold property	(920)	–
Interest income:		
- fixed deposits with financial institutions	(1,025)	(775)
- associates	(2,287)	(2,266)
Fair value loss on derivative financial instruments	895	594
Gain on sale of property, plant and equipment	(5,223)	(11,899)
Impairment of trade and other receivables	520	2,889
Financial receivables written off	–	3,056
Operating lease expense	15,158	8,884
Professional fees paid to firms in which a director is member	164	279

NOTES TO THE FINANCIAL STATEMENTS

	Group 2012 $'000	Group 2011 $'000
Contribution to defined contribution plans, included in staff costs	7,050	6,531
Employees' share option expense, included in staff costs	2,810	1,038
Research expense	1,423	1,380
Audit fees paid to:		
- auditors of the Company	527	579
- other member firms of KPMG International	183	218
- other auditors	68	88
Non-audit fees paid to:		
- auditors of the Company	35	28
- other member firms of KPMG International	-	49

24 TAX EXPENSE

	Group 2012 $'000	Group 2011 $'000
Current tax expense		
Current year	13,021	11,655
Over provided in prior years	(1,567)	(3,292)
	11,454	8,363
Deferred tax expense		
Origination and reversal of temporary differences	831	(2,006)
Over provided in prior years	–	(39)
	831	(2,045)
Tax expense	12,285	6,318
Reconciliation of effective tax rate		
Profit before income tax	76,998	62,043
Income tax using Singapore tax rate of 17%	13,090	10,547
Effect of different tax rates in foreign jurisdictions	472	998
Tax exempt income	(1,091)	(2,199)
Non-deductible expenses	3,902	5,558
Effect of partial tax exemption and tax reliefs	(2,521)	(5,255)
Over provided in prior years	(1,567)	(3,331)
	12,285	6,318

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.

NOTES TO THE FINANCIAL STATEMENTS

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.

25 EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders of $36,994,000 (2011: $37,027,000), and a weighted average number of ordinary shares outstanding of 835,839,000 (2011: 860,219,000), calculated as follows:

Profit attributable to ordinary shareholders

	Group	
	2012	**2011**
	$'000	**$'000**
Profit for the year	60,994	53,027
Dividends on CPS	(24,000)	(16,000)
Profit attributable to ordinary shareholders	36,994	37,027

Weighted average number of ordinary shares

		Group	
	Note	**2012**	**2011**
		'000	**'000**
Issued ordinary shares at 1 January	18	858,679	857,931
Effect of own shares held		(23,128)	(345)
Effects of share options exercised		288	2,633
Weighted average number of ordinary shares at 31 December		835,839	860,219

NOTES TO THE FINANCIAL STATEMENTS

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2012 was based on profit attributable to ordinary shareholders of $36,994,000 (2011: $37,027,000), and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 837,238,000 (2011: 865,451,000), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Group	
	2012	**2011**
	'000	**'000**
Weighted average number of ordinary shares (basic)	835,839	860,219
Effect of share options on issue	1,399	5,232
Weighted average number of ordinary shares (diluted) at 31 December	837,238	865,451

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.

26 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.

- *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 2012 or 2011.

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: Asia ex-China, China and Middle East & 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.

NOTES TO THE FINANCIAL STATEMENTS

Information about reportable segments

	Municipal		Industrial		All other segments		Total	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
External revenues	629,146	417,816	49,831	58,784	3,407	5,375	682,384	481,975
Inter-segment revenue	46,416	115,225	429	2,839	8,803	703	55,648	118,767
Interest income	1,811	203	1,381	1,322	1	8	3,193	1,533
Finance costs	(14,956)	(11,734)	–	(3)	(556)	(3)	(15,512)	(11,740)
Depreciation, amortisation and impairment	(8,889)	(7,778)	(8,532)	(16,315)	(2,127)	(387)	(19,548)	(24,480)
Reportable segment profit/(loss) before income tax	91,578	93,972	6,630	(12,800)	(2,791)	2,660	95,417	83,832
Share of profit/(loss) of associates, net of income tax	2,070	287	(418)	(1,145)	2,601	2,084	4,253	1,226
Tax (expenses)/income	(11,455)	(6,160)	261	(450)	(1,091)	292	(12,285)	(6,318)
Operating lease expenses	(13,846)	(6,713)	(295)	(493)	(1,017)	(1,678)	(15,158)	(8,884)
Contribution to defined contribution plan, included in staff cost	(5,221)	(5,099)	(1,437)	(1,316)	(392)	(116)	(7,050)	(6,531)
Reportable segment assets	1,741,235	1,418,559	186,189	214,036	104,412	86,088	2,031,836	1,718,683
Investments in associates	92,741	99,111	1,737	2,550	9,614	7,226	104,092	108,887
Capital expenditure	13,347	12,419	318	601	30,610	260	44,275	13,280
Reportable segment liabilities	479,373	353,344	24,808	25,683	50,615	55,623	554,796	434,650

NOTES TO THE FINANCIAL STATEMENTS

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

	2012 $'000	2011 $'000
Revenues		
Total revenue for reportable segments	678,977	476,600
Other revenue	3,407	5,375
Consolidated revenue	682,384	481,975
Profit or loss		
Total profit or loss for reportable segments	98,208	81,172
Other profit or loss	(2,791)	2,660
	95,417	83,832
Unallocated amounts:		
- Other corporate expenses	(22,672)	(23,015)
Share of profit of associates, net of income tax	4,253	1,226
Consolidated profit before income tax	76,998	62,043
Assets		
Total assets for reportable segments	1,927,424	1,632,595
Other assets	104,412	86,088
Investments in associates	104,092	108,887
Other unallocated amounts	214,416	204,895
Consolidated total assets	2,350,344	2,032,465
Liabilities		
Total liabilities for reportable segments	504,181	379,027
Other liabilities	50,615	55,623
Other unallocated amounts	918,519	662,248
Consolidated total liabilities	1,473,315	1,096,898

Other material items in 2012

	Reportable segment totals $'000	Adjustments $'000	Consolidated totals $'000
Interest income	3,192	120*	3,312
Finance costs	(14,956)	(13,504)*	(28,460)
Capital expenditure	13,665	37,607^	51,272
Depreciation, amortisation and impairment	(17,421)	(11,971)^	(29,392)

NOTES TO THE FINANCIAL STATEMENTS

Other material items in 2011

	Reportable segment totals $'000	Adjustments $'000	Consolidated totals $'000
Interest income	1,525	1,516*	3,041
Finance costs	(11,737)	(10,860)*	(22,597)
Capital expenditure	13,020	45,440^	58,460
Depreciation, amortisation and impairment	(24,093)	(12,544)^	(36,637)

* This represents interest income 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

	Revenues $'000	Non-current assets $'000
31 December 2012		
Middle East & North Africa	28,871	88,806
People's Republic of China	158,902	574,520
Asia ex-China	494,611	772,102
	682,384	1,435,428
31 December 2011		
Middle East & North Africa	114,410	99,504
People's Republic of China	140,716	529,612
Asia ex-China	226,849	303,856
	481,975	932,972

NOTES TO THE FINANCIAL STATEMENTS

27 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.

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.

Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a credit-adjusted risk-free interest rate (based on government bonds).

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.

NOTES TO THE FINANCIAL STATEMENTS

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.

28 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.

Loan 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.

NOTES TO THE FINANCIAL STATEMENTS

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of loan 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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	
	2012	2011
	$'000	$'000
Loans and borrowings	1,118,741	830,422
Less: Cash and cash equivalents	(541,232)	(662,358)
Net debt	577,509	168,064
Total equity	877,029	935,567
Gearing ratio	66%	18%

From time to time, the Group purchases its own shares on the market pursuant to the Shares Purchase Mandate (the Mandate) obtained at the Annual General Meeting (AGM) on 26 April 2012. The Mandate is subject to renewal annually by Shareholders at the AGM.

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 18).

(ii) The Company is required under financial covenants clause to maintain a consolidated total tangible net worth (TNW) for the Group of not less than $160 million, consolidated net borrowings to TNW of not more than 1.5 times; and consolidated earnings before interest, tax, depreciation and amortisation to consolidated interest expenses of at least 3 times.

These externally imposed capital requirements have been complied with by the Company and the relevant subsidiaries for the financial year ended 31 December 2012.

29 OPERATING LEASES

Leases as lessor

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2012	2011
	$'000	$'000
Within one year	4,900	–
Between one and five years	8,994	–
	13,894	–

29 OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2012	**2011**
	$'000	**$'000**
Within one year	12,286	9,984
Between one and five years	42,478	38,635
More than five years	45,115	49,474
	99,879	98,093

The Group has various operating lease agreements for site equipment, membrane production facilities, 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.

30 CAPITAL COMMITMENTS

(i) At 31 December 2012, the Group has outstanding commitments in respect of uncalled capital of approximately US$5,100,000 (2011: US$5,100,000) in an associate.

(ii) At 31 December 2012, the Group has outstanding capital commitments of $1,974,000 (2011: $23,988,000).

31 CONTINGENCIES

The Group has potential contingencies arising from the delayed completion of the construction of the Magtaa desalination plant in Algeria in its capacity as the Engineering, Procurement and Construction (EPC) contractor. In respect of such delays, the Group has brought several claims against the project owner for an extension of the contractual completion date as the delay was primarily caused by various reasons that were beyond the control of the Group, including a fire that broke out in July 2011 which destroyed key materials and equipment, as well as delay in testing and commissioning works due to lack of power supply by the local government. Notwithstanding this, in 2012, the project owner has claimed for full contractual liquidated damages under the EPC contract. The Group is confident that its claim for extension of time will invalidate the liquidated damages claimed by the project owner and no contingent liabilities have been recognised as at 31 December 2012.

In another desalination project in Algeria which was completed and handed over in 2011, the Group has potential contingencies arising from the delayed completion of a desalination plant in its capacity as the EPC contractor. The project owner has claimed for full contractual liquidated damages due to the delay in completion under the EPC contract. On its part, the Group has claimed for an extension of the contractual completion date as it had been prevented by the project owner from commencing testing and commissioning works sooner than it was eventually allowed to do so. Furthermore, the Group, in its capacity as the Operation and Maintenance contractor, has a claim against the project owner for unpaid mobilisation fees that it is contractually entitled to. As at 31 December 2012, the Group is still in negotiation with the project owner and no contingent liabilities have been recognised.

In a separate design and supply of a seawater desalination facility, the customer has claimed for liquidated damages from the delay in completion. On its part, the Group in its capacity as the water technology provider for the project, has claimed for an extension of the completion deadline as well as prolongation costs as the customer, who is responsible for the civil and structural works for the project, was late in its deliverables thereby obstructing the timely completion of project. As at 31 December 2012, the Company is still in negotiation with the customer and no contingent liabilities or assets have been recognised.

NOTES TO THE FINANCIAL STATEMENTS

The Group has potential contingencies arising from delayed completion of a waste water plant construction project with a local government agency. The delay in completion was due to, amongst other things, delays due to inclement weather, difficult site conditions, as well as modifications of original specifications from that of tender information. As at 31 December 2012, the Group has applied for an extension to the project completion date and negotiating for variation orders for the additional work performed. As at 31 December 2012, no contingent liabilities or assets have been recognised by the Group in relation to the project.

On 28 February 2012, the Company announced that it has been served with an Arbitration Notice (the Notice) by the China International Economic and Trade Arbitration Commission. The Notice relates to an arbitration (Arbitration) commenced by an associate of the Group, Ningxia Hypow Bio-Technology Co., Ltd (the Claimant). The Arbitration claim is for an amount up to RMB436 million for certain non-water industrial project works carried out by subsidiaries of the Group for the Claimant. The Company and the subsidiaries involved have filed their defence as well as counterclaims against the Claimant to recover the shareholders loan made to the Claimant, outstanding EPC payments and deposits placed with the Claimant for contract manufacturing purposes. At 31 December 2012, the outcome of the Arbitration remains uncertain and no contingent liabilities or assets have been recognised by the Group.

32 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	
	2012	**2011**
	$'000	**$'000**
Directors' fees	550	541
Short-term employee benefits	3,542	4,589
Share-based payments	1,058	692
	5,150	5,822
Comprise amounts paid/payable to:		
- Directors of the Company	1,262	2,324
- Other key management personnel	3,888	3,498
	5,150	5,822

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 19.

NOTES TO THE FINANCIAL STATEMENTS

32 RELATED PARTIES

Other related party transactions

Other than as disclosed elsewhere in the financial statements, significant transactions carried out in the normal course of business on terms agreed with related parties are as follows:

	Transaction value for the year ended 31 December		Balance outstanding as at 31 December	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Group				
Joint venture				
Revenue from construction contracts	39,178	50,168	29,954	25,470
Revenue from maintenance contracts	6,249	4,919	4,446	3,458
Rental income	190	170	332	155
Service income	1,017	980	914	976
Associates				
Revenue from construction contracts	1,091	74,751	38,259	84,391
Revenue from maintenance contracts	28,965	18,991	5,318	2,159

33 SUBSEQUENT EVENTS

On 5 March 2013, the Company granted 2,180,000 share options pursuant to Hyflux Employees' Share Option Scheme 2011 at an exercise price of $1.396 per share. The validity period of options granted is from 5 March 2013 to 4 March 2023.

APPENDIX V: UNAUDITED FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2013

The information in this Appendix V has been reproduced from the announcement on 7 November 2013 of Hyflux Ltd and its subsidiaries for the third quarter ended 30 September 2013 and has not been specifically prepared for inclusion in this Offering Circular.

HYFLUX LTD
Registration number : 200002722Z

Unaudited Financial Statements For The Third Quarter and Nine Months Ended 30 September 2013

1 (a)(i) An income statement (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

CONSOLIDATED INCOME STATEMENT
FOR THE THIRD QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2013

	Group					
	Quarter ended 30 September			Nine months ended 30 September		
	2013	2012	Change	2013	2012	Change
	S$'000	S$'000 Restated	%	S$'000	S$'000 Restated	%
Revenue	**187,745**	148,896	26	**450,673**	467,792	(4)
Other income	**1,488**	1,444	3	**7,856**	4,746	66
Changes in inventories of finished goods and work-in-progress	**3,724**	4,057	(8)	**4,932**	1,816	NM
Raw materials and consumables used and subcontractors' cost	**(75,098)**	(90,649)	(17)	**(231,506)**	(295,768)	(22)
Staff costs	**(18,723)**	(22,362)	(16)	**(53,553)**	(58,721)	(9)
Depreciation, amortisation and impairment	**(27,867)**	(5,013)	NM	**(35,539)**	(13,079)	NM
Other expenses	**(33,395)**	(13,538)	NM	**(58,222)**	(39,934)	46
Finance costs	**(6,983)**	(5,128)	36	**(19,221)**	(15,343)	25
Share of losses of associates and joint ventures, net of income tax	**(3,509)**	(1,074)	NM	**(7,665)**	(2,927)	NM
Profit before income tax	**27,382**	16,633	65	**57,755**	48,582	19
Tax expense	**(3,139)**	(1,474)	NM	**(8,307)**	(5,665)	47
Profit for the period	**24,243**	15,159	60	**49,448**	42,917	15
Profit attributable to:						
Owners of the Company	**25,278**	14,518	74	**51,012**	39,714	28
Non-controlling interests	**(1,035)**	641	NM	**(1,564)**	3,203	NM
Profit for the period	**24,243**	15,159	60	**49,448**	42,917	15

NM: Not Meaningful

1 (a)(ii) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THIRD QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2013

	Group					
	Quarter ended 30 September			Nine months ended 30 September		
	2013 S$'000	2012 S$'000 Restated	Change %	2013 S$'000	2012 S$'000 Restated	Change %
Profit for the period	**24,243**	15,159	60	**49,448**	42,917	15
Other comprehensive income:						
Items that may be reclassified subsequently to profit or loss						
Foreign currency translation differences for foreign operations	**(1,073)**	(12,417)	(91)	**12,816**	(14,623)	NM
Effective portion of changes in fair value of cash flow hedges	**994**	3,647	(73)	**2,250**	3,232	(30)
Share of other comprehensive income of associates and joint ventures	**(4,131)**	(9,567)	(57)	**11,169**	(14,865)	NM
	(4,210)	(18,337)	(77)	**26,235**	(26,256)	NM
Items that will not be reclassified to profit or loss						
Effect of changes in control of consolidated entities	**(1,142)**	-	NM	**(1,142)**	-	NM
Net change in fair value of cash flow hedges transferred to profit or loss	**(1,593)**	54	NM	**(4,869)**	1,152	NM
	(2,735)	54	NM	**(6,011)**	1,152	NM
Other comprehensive (loss)/income for the period, net of income tax	**(6,945)**	(18,283)	(62)	**20,224**	(25,104)	NM
Total comprehensive income/(loss) for the period	**17,298**	(3,124)	NM	**69,672**	17,813	NM
Total comprehensive income attributable to:						
Owners of the Company	**18,696**	(2,994)	NM	**70,828**	15,728	NM
Non-controlling interests	**(1,398)**	(130)	NM	**(1,156)**	2,085	NM
Total comprehensive income/(loss) for the period	**17,298**	(3,124)	NM	**69,672**	17,813	NM

NOTES TO CONSOLIDATED INCOME STATEMENT

1 (a)(iii) Profit before income tax of the Group is arrived at after (charging)/crediting the following: -

	Group					
	Quarter ended 30 September			Nine months ended 30 September		
	2013 S$'000	2012 S$'000 Restated	Change %	2013 S$'000	2012 S$'000 Restated	Change %
(Allowance)/write back for inventory obsolescence	**(1)**	10	NM	**(24)**	31	NM
Depreciation, amortisation and impairment	**(27,867)**	(5,013)	NM	**(35,539)**	(13,079)	NM
Fair value loss on derivative financial instruments	**-**	(735)	NM	**-**	(895)	NM
Finance costs	**(6,983)**	(5,128)	36	**(19,221)**	(15,343)	25
Financial receivables written off	**(2,617)**	-	NM	**(2,617)**	-	NM
Gain on disposal of subsidiaries	**810**	-	NM	**810**	-	NM
Gain on sale of property, plant and equipment	**38**	32	20	**35**	5,231	(99)
(Impairment)/write back of trade and other receivables	**(8,412)**	204	NM	**(8,435)**	154	NM
Interest income	**356**	679	(48)	**1,826**	2,186	(16)
Net foreign currency exchange (loss)/gain	**(1,913)**	50	NM	**(271)**	(4,479)	(94)
Property, plant and equipment written off	**(435)**	-	NM	**(445)**	-	NM
(Under)/overprovision of prior years' tax	**(22)**	18	NM	**(444)**	47	NM

NM: Not Meaningful

Hyflux®

1(b)(i) Statements of financial position (for the Issuer and Group), together with a comparative statement as at the end of the immediately preceding financial year.

STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2013

	Group		Company	
	30 Sep 13	31 Dec 12	30 Sep 13	31 Dec 12
	S$'000	S$'000 Restated	S$'000	S$'000
NON-CURRENT ASSETS				
Property, plant and equipment	**179,520**	195,388	**-**	-
Intangible assets	**34,805**	32,722	**-**	-
Intangible assets arising from service concession arrangements	**747,376**	226,485	**-**	-
Investments in subsidiaries	**-**	-	**176,790**	177,420
Investments in joint ventures	**233,060**	223,308	**3,125**	3,125
Investments in associates	**99,783**	104,092	**14,426**	14,109
Other investments	**18,022**	-	**630**	-
Financial receivables	**374,762**	504,145	**-**	-
Trade and other receivables	**15,000**	14,594	**756,812**	760,736
Deferred tax assets	**3,276**	1,656	**-**	-
	1,705,604	1,302,390	**951,783**	955,390
CURRENT ASSETS				
Gross amounts due for contract work	**95,400**	119,119	**-**	-
Inventories	**32,056**	30,561	**-**	-
Financial receivables	**12,488**	7,289	**-**	-
Trade and other receivables	**242,868**	232,787	**776,856**	490,628
Cash and cash equivalents	**318,762**	497,558	**131,757**	176,216
	701,574	887,314	**908,613**	666,844
CURRENT LIABILITIES				
Trade and other payables	**245,372**	307,071	**212,090**	34,813
Loans and borrowings	**80,519**	58,688	**26,000**	10,000
Tax payable	**10,306**	8,932	**6,536**	2,868
	336,197	374,691	**244,626**	47,681
Net current assets	**365,377**	512,623	**663,987**	619,163
NON-CURRENT LIABILITIES				
Loans and borrowings	**1,177,725**	932,919	**984,551**	908,519
Deferred tax liabilities	**6,401**	5,065	**-**	-
	1,184,126	937,984	**984,551**	908,519
Net assets	**886,855**	877,029	**631,219**	666,034
EQUITY				
Share capital	**606,574**	605,196	**606,574**	605,196
Reserve for own shares	**(51,484)**	(51,484)	**(51,484)**	(51,484)
Capital reserve	**7,295**	9,094	**2,654**	1,858
Foreign currency translation reserve	**(9,223)**	(30,480)	**-**	-
Hedging reserve	**(785)**	656	**-**	-
Employees' share option reserve	**23,862**	22,457	**23,862**	22,457
Retained earnings	**307,528**	305,154	**49,613**	88,007
Total equity attributable to owners of the Company	**883,767**	860,593	**631,219**	666,034
Non-controlling interests	**3,088**	16,436	**-**	-
Total equity	**886,855**	877,029	**631,219**	666,034
Group net borrowings (S$)	**939,482**	494,049	**n.a.**	n.a.
Group net gearing (times)	**1.06x**	0.56x	**n.a.**	n.a.

NOTES TO STATEMENTS OF FINANCIAL POSITION

1(b)(ii) Group's borrowings and debt securities

(i) Amount repayable in one year or less, or on demand

30 Sep 13		31 Dec 12	
		Restated	
Secured S$'000	Unsecured S$'000	Secured S$'000	Unsecured S$'000
-	80,519	6,352	52,336

(ii) Amount repayable after one year

30 Sep 13		31 Dec 12	
		Restated	
Secured S$'000	Unsecured S$'000	Secured S$'000	Unsecured S$'000
65,000	1,112,725	22,233	910,686

Details of any collateral

As at 30 September 2013 and 31 December 2012, secured bank loans of the Group were secured by land and building of a subsidiary.

1(c) A statement of cash flows (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THIRD QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2013

	Group			
	Quarter ended 30 September		Nine months ended 30 September	
	2013 S$'000	2012 S$'000 Restated	2013 S$'000	2012 S$'000 Restated
Cash flows from operating activities				
Profit before income tax	**27,382**	16,633	**57,755**	48,582
Adjustments for:				
Allowance/(write back) for inventory obsolescence	**1**	(10)	**24**	(31)
Amortisation of transaction costs related to borrowings	**166**	115	**536**	350
Depreciation, amortisation and impairment	**27,867**	5,013	**35,539**	13,079
Employees' share option expense	**400**	568	**1,405**	2,173
Fair value loss on derivative financial instruments	**-**	735	**-**	895
Finance costs	**6,983**	5,128	**19,221**	15,343
Financial receivables written off	**2,617**	-	**2,617**	-
Gain on disposal of subsidiaries	**(810)**	-	**(810)**	-
Gain on sale of property, plant and equipment	**(38)**	(32)	**(35)**	(5,231)
Impairment/(write back) of trade and other receivables	**8,412**	(204)	**8,435**	(154)
Interest income	**(356)**	(679)	**(1,826)**	(2,186)
Property, plant and equipment written off	**435**	-	**445**	-
Share of losses of associates and joint ventures, net of income tax	**3,509**	1,074	**7,665**	2,927
	76,568	28,341	**130,971**	75,747
Change in inventories	**(2,250)**	(4,826)	**(1,945)**	(8,732)
Change in gross amounts due for contract work	**18,956**	12,442	**14,762**	66,953
Change in trade and other receivables	**(25,928)**	32,071	**(45,141)**	25,505
Change in trade and other payables	**(38,721)**	9,451	**(59,856)**	51,380
Cash from operating activities before service concession arrangement projects	**28,625**	77,479	**38,791**	210,853
Change in financial receivables from service concession arrangements	**(3,256)**	(37,110)	**(22,583)**	(259,404)
Change in intangibles assets arising from service concession arrangements	**(161,078)**	(89,054)	**(367,438)**	(91,531)
Cash used in operating activities after service concession arrangement projects	**(135,709)**	(48,685)	**(351,230)**	(140,082)
Income tax paid	**(1,495)**	(3,355)	**(8,140)**	(10,585)
Net cash used in operating activities	**(137,204)**	(52,040)	**(359,370)**	(150,667)
Cash flows from investing activities				
Acquisition of intangible assets	**(980)**	(749)	**(5,518)**	(2,843)
Acquisition of property, plant and equipment	**(2,106)**	(7,457)	**(4,988)**	(30,777)
Additional investments in joint ventures	**-**	(7)	**(964)**	(5,461)
Change in amounts due from related parties (non-trade)	**-**	1,063	**-**	792
Dividends received from associates	**405**	390	**1,125**	1,170
Effect of changes in control of consolidated entities	**(14,714)**	-	**(14,714)**	-
Interest received	**246**	348	**822**	1,203
Proceeds from sale of property, plant and equipment	**69**	7,494	**78**	7,805
Net cash (used in)/from investing activities	**(17,080)**	1,082	**(24,159)**	(28,111)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THIRD QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2013 (cont'd)

	Group			
	Quarter ended 30 September		Nine months ended 30 September	
	2013 S$'000	2012 S$'000 Restated	2013 S$'000	2012 S$'000 Restated
Cash flows from financing activities				
Decrease in deposits pledged	**6,796**	-	**4,964**	-
Dividends paid	**(5,786)**	(5,776)	**(38,404)**	(35,614)
Interest paid	**(15,662)**	(13,082)	**(33,762)**	(27,588)
Proceeds from borrowings	**182,590**	320,785	**351,418**	498,606
Proceeds from exercise of share options	**618**	45	**1,378**	332
Purchases of treasury shares	**-**	(7,481)	**-**	(47,023)
Repayment of borrowings	**(60,651)**	(341,242)	**(100,094)**	(354,742)
Net cash from/(used in) financing activities	**107,905**	(46,751)	**185,500**	33,971
Net decrease in cash and cash equivalents	**(46,379)**	(97,709)	**(198,029)**	(144,807)
Cash and cash equivalents at beginning of the period	**315,080**	556,053	**449,014**	606,617
Effect of exchange rate fluctuations on cash held	**(4,788)**	(14,982)	**12,928**	(18,448)
Cash and cash equivalents at end of the period [Note 1(c)(i)]	**263,913**	443,362	**263,913**	443,362

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:

	Group	
	30 Sep 2013 S$'000	30 Sep 2012 S$'000 Restated
Cash and cash equivalents as per statements of financial position	**318,762**	480,516
Less: Bank overdraft	**(52,711)**	(37,154)
Less: Deposits pledged	**(2,138)**	-
Cash and cash equivalents as per statement of cash flows	**263,913**	443,362

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 owners 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 1.1.2013	605,196	(51,484)	9,094	(30,480)	656	22,457	305,154	860,593	16,436	877,029
Total comprehensive income for the period										
Profit/(loss) for the period	-	-	-	-	-	-	51,012	51,012	(1,564)	49,448
Other comprehensive income										
Foreign currency translation differences for foreign operations	-	-	-	12,076	-	-	-	12,076	740	12,816
Effect of changes in control of consolidated entities	-	-	-	(810)	-	-	-	(810)	(332)	(1,142)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	2,250	-	-	2,250	-	2,250
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	-	(4,869)	-	-	(4,869)	-	(4,869)
Share of reserve of joint ventures	-	-	(20)	-	-	-	20	-	-	-
Share of other comprehensive income of associates and joint ventures	-	-	-	9,991	1,178	-	-	11,169	-	11,169
Total comprehensive income/(loss) for the period	-	-	(20)	21,257	(1,441)	-	51,032	70,828	(1,156)	69,672
Transactions with owners, recognised directly in equity										
Contributions by and distributions to owners										
Dividends paid/payable	-	-	-	-	-	-	(50,437)	(50,437)	-	(50,437)
Issue of shares for cash under Employees' Share Option Schemes	1,378	-	-	-	-	-	-	1,378	-	1,378
Value of employee services received for issue of share options	-	-	-	-	-	1,405	-	1,405	-	1,405
Transfer to capital reserve	-	-	796	-	-	-	(796)	-	-	-
	1,378	-	796	-	-	1,405	(51,233)	(47,654)	-	(47,654)
Changes in ownership interest in subsidiaries										
Effect of changes in control of consolidated entities	-	-	(2,575)	-	-	-	2,575	-	(12,192)	(12,192)
Total transactions with owners	1,378	-	(1,779)	-	-	1,405	(48,658)	(47,654)	(12,192)	(59,846)
At 30.09.2013	**606,574**	**(51,484)**	**7,295**	**(9,223)**	**(785)**	**23,862**	**307,528**	**883,767**	**3,088**	**886,855**

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 owners 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 1.1.2012	604,740	(4,461)	6,467	3,635	(3,996)	19,647	294,559	920,591	14,976	935,567
Total comprehensive income for the period										
Profit for the period	-	-	-	-	-	-	39,714	39,714	3,203	42,917
Other comprehensive income										
Foreign currency translation differences for foreign operations	-	-	-	(13,505)	-	-	-	(13,505)	(1,118)	(14,623)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	3,232	-	-	3,232	-	3,232
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	-	1,152	-	-	1,152	-	1,152
Share of other comprehensive income of associates and joint ventures	-	-	-	(15,173)	308	-	-	(14,865)	-	(14,865)
Total comprehensive (loss)/income for the period	-	-	-	(28,678)	4,692	-	39,714	15,728	2,085	17,813
Transactions with owners, recognised directly in equity										
Contributions by and distributions to owners										
Dividends paid/payable	-	-	-	-	-	-	(35,614)	(35,614)	(1,040)	(36,654)
Issue of shares for cash under Employees' Share Option Schemes	332	-	-	-	-	-	-	332	-	332
Own shares acquired	-	(47,023)	-	-	-	-	-	(47,023)	-	(47,023)
Value of employee services received for issue of share options	-	-	-	-	-	2,173	-	2,173	-	2,173
Transfer to capital reserve	-	-	796	-	-	-	(796)	-	-	-
Total transactions with owners	332	(47,023)	796	-	-	2,173	(36,410)	(80,132)	(1,040)	(81,172)
At 30.09.2012	**605,072**	**(51,484)**	**7,263**	**(25,043)**	**696**	**21,820**	**297,863**	**856,187**	**16,021**	**872,208**

1 (d)(i) STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

	Share capital S$'000	Reserve for own shares S$'000	Capital reserve S$'000	Employees' share option reserve S$'000	Retained earnings S$'000	Total equity attributable to owners of the Company S$'000
At 1.1.2013	605,196	(51,484)	1,858	22,457	88,007	666,034
Profit for the period representing total comprehensive income for the period	-	-	-	-	12,839	12,839
Transactions with owners, recognised directly in equity						
Contributions by and distributions to owners						
Dividends paid/payable	-	-	-	-	(50,437)	(50,437)
Issue of shares for cash under Employees' Share Option Schemes	1,378	-	-	-	-	1,378
Value of employee services received for issue of share options	-	-	-	1,405	-	1,405
Transfer to capital reserve	-	-	796	-	(796)	-
Total transactions with owners	1,378	-	796	1,405	(51,233)	(47,654)
At 30.09.2013	**606,574**	**(51,484)**	**2,654**	**23,862**	**49,613**	**631,219**
At 1.1.2012	604,740	(4,461)	796	19,647	35,588	656,310
Profit for the period representing total comprehensive income for the period	-	-	-	-	67,907	67,907
Transactions with owners, recognised directly in equity						
Contributions by and distributions to owners						
Dividends paid	-	-	-	-	(35,614)	(35,614)
Issue of shares for cash under Employees' Share Option Schemes	332	-	-	-	-	332
Own shares acquired	-	(47,023)	-	-	-	(47,023)
Value of employee services received for issue of share options	-	-	-	2,173	-	2,173
Transfer to capital reserve	-	-	796	-	(796)	-
Total transactions with owners	332	(47,023)	796	2,173	(36,410)	(80,132)
At 30.09.2012	**605,072**	**(51,484)**	**1,592**	**21,820**	**67,085**	**644,085**

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 well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, 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 third quarter ended 30 September 2013 were as follows:

Issued share capital

	No. of shares	Amount S$'000
Ordinary shares		
At 1 July 2013	826,044,489	161,903
Issue of shares under the Employees' Share Option Schemes ("the Schemes")	630,000	618
At 30 September 2013	826,674,489	162,521
Preference shares		
At 1 July 2013 and 30 September 2013	4,000,000	392,569
Issued share capital at 30 September 2013		555,090

As at 30 September 2013, the number of ordinary shares in issue were 826,674,489 (30 September 2012: 825,072,364), excluding 37,146,000 (30 September 2012: 37,146,000) held by the Company as treasury shares.

The total number of issued 6% Cumulative Non-convertible Non-voting Perpetual Class A Preference Shares (CPS) as at 30 September 2013 were 4,000,000 (30 September 2012: 4,000,000).

Outstanding share options under the Scheme

	No. of options
At 1 January 2013	45,417,477
Options granted	2,180,000
Options granted but not accepted	-
Exercised/Forfeited	(6,060,477)
At 30 September 2013	41,537,000

As at 30 September 2013, the number of outstanding share options under the Schemes were 41,537,000 (30 September 2012: 46,497,993).

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 ordinary shares held as treasury shares as at 30 September 2013 were 37,146,000 (31 December 2012: 37,146,000).

The total number of issued ordinary shares excluding treasury shares as at 30 September 2013 were 826,674,489 (31 December 2012: 825,222,739).

There was no change in the Company's issued CPS during the nine months ended 30 September 2013. The total number of issued CPS as at 30 September 2013 were 4,000,000 (31 December 2012: 4,000,000).

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 30 September 2013.

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 have reviewed the application of the new/revised FRS and Interpretations of FRS that are effective for the financial year beginning on 1 January 2013. Other than those disclosed in first quarter ended 31 March 2013, there have been no further changes.

6. **Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

	Quarter ended 30 September			Nine months ended 30 September		
	2013	**2012**	**Change %**	**2013**	**2012**	**Change %**
Earnings per ordinary share of the Group based on net profit attributable to owners of the Company:-						
Based on the weighted average number of ordinary shares in issue	2.33 cts	1.01 cts	NM	4.00 cts	2.59 cts	54.4
- Weighted average number of shares	826,566,489	840,155,031	(1.6)	826,008,572	839,378,420	(1.6)
On a fully diluted basis of ordinary shares	2.33 cts	1.01 cts	NM	3.99 cts	2.56 cts	55.9
- Adjusted weighted average number of shares	827,082,499	842,299,675	(1.8)	827,515,045	848,130,687	(2.4)

7. **Net asset value (for the Issuer and Group) per ordinary share based on the total number of issued shares excluding treasury shares 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:

	Group		Company	
	30 Sep 13 Cents	**31 Dec 12 Cents**	**30 Sep 13 Cents**	**31 Dec 12 Cents**
Based on 826,674,489 (31 December 2012: 825,222,739) ordinary shares in issue	58.5	55.8	28.0	32.2

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)(i) Revenue and earnings

The Group announced on 18 September 2013 that it has secured a $720 million 18-year term loan facility with Maybank Singapore and Maybank Kim Eng Securities Pte Ltd to fund the Tuaspring desalination and power plants. As part of the project financing, including matters as required and performed by the lenders, the project size was reviewed taking into account factors such as the power plant completion timeline and updates to current financing structures. In compliance with the requirements under WPA with PUB, the Group has obtained consent from PUB on the financing and related revisions. Contributions from the operation and maintenance of Tuaspring desalination plant was insignificant in the current quarter as it was completed in September 2013. Currently, the operational readiness of the power plant is dependent on the connection to the national power grid.

The Group achieved profit attributable to owners of the Company (PATMI) of $25.3 million for the third quarter ended 30 September 2013 (3Q2013), an increase from $14.5 million for the third quarter ended 30 September 2012 (3Q2012). Revenue rose 26% to $187.7 million in the quarter. For the nine months ended 30 September 2013 (9M2013), the Group recorded PATMI of $51.0 million, an increase from $39.7 million for the nine months ended 30 September 2012 (9M2012). Total revenue for 9M2013 was $450.7 million, a 4% marginal decline from 9M2012.

The Group reported gross profits of $116.4 million in 3Q2013 compared to $62.3 million in 3Q2012 contributed by projects undertaken during the period as well as continuing overall cost management. For the nine months, gross profits improved from $173.8 million in 9M2012 to $224.1 million in 9M2013.

Basic and fully diluted earnings per share (adjusted for dividends on CPS) increased from 1.01 cents in 3Q2012 to 2.33 cents in 3Q2013. For 9M2013, it increased by 54.4% and 55.9% respectively to 4.00 cents and 3.99 cents as compared to 9M2012.

Sector Review

Municipal sector continued to be the main contributor to the Group's revenue, accounting for 95% and 93% of the Group's total revenue in 3Q2013 and 9M2013 respectively. This is largely similar to the profile in 2012 where the municipal sector contributed 96% in 3Q2012 and 93% in 9M2012. The Group's municipal projects are from Asia and MENA.

Revenue contribution from the industrial sector remained at 3% of the Group's total revenue in 3Q2013, similar to 3Q2012. This sector made up 5% and 6% of the Group's revenue for 9M2013 and 9M2012 respectively.

Geographical Review

The Asia ex-China market remained the major revenue contributor in 3Q2013, representing 93% of the Group's total revenue, an increase from 83% in 3Q2012. For 9M2013, Asia ex-China contributed 89% to the Group's total revenue, up from 77% in 9M2012.

The Group's China market contributed 4% to the total revenue in 3Q2013, a drop from 14% in 3Q2012. For 9M2013, revenue from China was at 7% compared to 18% in 9M2012.

Contributions from MENA remained at 3% in 3Q2013, similar to 3Q2012. For 9M2013, MENA contributed 4%, 1% point down from 5% in 9M2012.

8(a)(ii) Costs and expenses

Lower raw materials, consumables used and subcontractors' costs were utilised for 3Q2013 and 9M2013 in aggregate as compared to corresponding periods due to improved cost management. These direct costs decreased from $90.6 million in 3Q2012 to $75.1 million in 3Q2013 and from $295.8 million in 9M2012 to $231.5 million in 9M2013.

Total staff costs decreased from $22.4 million in 3Q2012 to $18.7 million in 3Q2013; and from $58.7 million in 9M2012 to $53.6 million in 9M2013. This was in line with the completion of some of the Group's major projects.

Finance costs increased by 36% in 3Q2013 and by 25% in 9M2013, from $5.1 million in 3Q2012 to $7.0 million in 3Q2013, and from $15.3 million in 9M2012 to $19.2 million in 9M2013, respectively, due to an overall higher borrowings in financing the Group's projects.

Depreciation, amortisation and impairment increased for both periods from $5.0 million in 3Q2012 to $27.9 million in 3Q2013 and $13.1 million in 9M2012 to $35.5 million in 9M2013.

On 30 August 2013, the Group announced that the members of Hyflux Filtech (Singapore) Pte Ltd ("HFS") resolved to liquidate HFS by way of a members' voluntary liquidation. HFS is a 71% owned subsidiary of the Group with two subsidiaries in the People's Republic of China, namely, Hyflux Filtech (Shanghai) Co., Ltd and Hyflux Unitech (Shanghai) Co., Ltd. Consequently, the Group deconsolidated these subsidiaries as it assessed it no longer has control and reclassified these entities as other investments. An assessment of the recoverable amount was performed with an estimated impairment of $12.8 million recorded in 3Q2013. Additionally, the Group wrote down certain carrying amounts of its non-core assets during the quarter. These resulted in higher depreciation, amortisation and impairment expenses in 3Q2013 and 9M2013 as compared to corresponding periods.

Other expenses increased from $13.5 million for 3Q2012 to $33.4 million for 3Q2013, and from $39.9 million for 9M2012 to $58.2 million for 9M2013. The increases were attributed to higher professional fees and rental expenses in machinery and equipment incurred during the periods. The Group also made provisions against receivables amounting to $8.4 million in 3Q2013.

The effective tax rate at 10.2% for 3Q2013 (12.7% for 9M2013) remained at levels similar to 2012.

8(b) Statements of Financial Position Analysis

8(b)(i) The Group

The Group's shareholders' equity increased to $883.8 million as at 30 September 2013 from $860.6 million as at 31 December 2012. The increase was mainly attributable to movements of $21.3 million on translation of foreign operations resulting from strengthening of US Dollars and Chinese Renminbi against the Singapore dollars during the financial period. Net profit for the nine months financial period also contributed to the Group's equity base. These increases were offset by dividends paid/ payable of $50.4 million for ordinary and preference shares during the period.

Current assets decreased to $701.6 million as at 30 September 2013 from $887.3 million as at 31 December 2012 as a result of deployment of fundings for projects.

Non-current assets increased to $1,705.6 million as at 30 September 2013 from $1,302.4 million as at 31 December 2012 mainly due to the increase in intangible assets arising from service concession arrangements as the Group progresses with its projects.

Non-current liabilities increased to $1,184.1 million as at 30 September 2013 from $938.0 million as at 31 December 2012 due to increase in borrowings. Included in the balances as at 30 September 2013 was $553.6 million fixed rate unsecured notes issued under the Group's Multicurrency Debt Issuance Programme that mature between 2014 and 2019.

The Group reported net gearing ratio of 1.06 times as at 30 September 2013.

8(b)(ii) The Company

The Company's shareholders' equity decreased to $631.2 million as at 30 September 2013 from $666.0 million as at 31 December 2012. Major movements comprised ordinary and preference dividends paid/ payable of $50.4 million during the period and dividends from an associate.

8(c) Statement of Cash flows

The Group's overall cash position decreased to $318.8 million as at 30 September 2013 from $497.6 million as at 31 December 2012.

In 3Q2013 and 9M2013, net cash of $137.2 million and $359.4 million respectively were used in the Group's operating activities, mainly towards service concession arrangement projects. Excluding cash used in these projects, net cash generated in the Group's operating activities were $28.6 million and $38.8 million in 3Q2013 and 9M2013 respectively.

Investing activities in 3Q2013 and 9M2013 were incurred mainly for capital expenditure of property, plant and equipment and intangible assets in supporting the Group's activities. Additionally, a cash outflow of $14.7 million was recorded arising from the deconsolidation of subsidiaries during the quarter.

Cash generated from the Group's financing activities in 3Q2013 and 9M2013 were mainly from borrowings, net of repayments, for fundings of the Group's projects. The Group paid ordinary dividends of $5.8 million in 3Q2013 and $38.4 million in total for ordinary and preference dividends for 9M2013.

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 significant trends and 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 Group's 318,500m^3/day desalination facility at Tuaspring Desalination Plant was inaugurated on 18 September 2013. The engineering, procurement and construction (EPC) works on the on-site power plant are progressing as planned with its operational readiness dependent on the completion of the connection to the national power grid.

Our Dahej desalination project in India is on track for financial close with EPC activities expected to commence in 2014. Given the completion of Tuaspring and the Dahej start-up timing, we anticipate a slower fourth quarter.

Apart from tendering for water infrastructure projects in our key markets, the Group is actively pursuing desalination and water recycling opportunities in the industrial water sector. Such industrial projects typically have shorter project time frame.

During the last quarter, the Group will also focus on tendering for various large projects in the Middle East and Africa regions.

11. Dividend

(a) Current financial period reported on.

Any dividend recommended for the current financial period reported on?

Yes.

In September 2013, the Company declared a tax-exempt (one-tier) dividend to holders of CPS, calculated on the basis of 183 days from (and including) 25 April 2013 to (but excluding) 25 October 2013 (being the relevant dividend period). The said preference dividend of $12,032,896 was paid on 25 October 2013.

(b) Corresponding period of the immediately preceding financial year.

Any dividend declared for the corresponding period of the immediately preceding financial year?

Yes.

In September 2012, the Company declared a tax-exempt (one-tier) dividend to holders of CPS, calculated on the basis of 183 days from (and including) 25 April 2012 to (but excluding) 25 October 2012 (being the relevant dividend period). The said preference dividend of $12,032,897 was paid on 25 October 2012.

(c) Date payable.

Not applicable.

(d) Books closure date.

Not applicable.

12. If no dividend has been declared/recommended, a statement to that effect.

Not applicable.

13. If the group has obtained a general mandate from shareholders for Interested Person Transactions ("IPT"), the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

No IPT mandate has been obtained from shareholders.

14. 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 30 September 2013 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

Lim Poh Fong
Company Secretary
7 November 2013