



# A Sound Platform for Growth

Hyflux Water Trust  
annual report 2008



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*Beichen WWTP*

# **HYFLUX WATER TRUST:** OUR PRESENCE, OUR PLANTS



#### **Anhui Province:**

- Mingguang WWTP

#### **Hebei Province:**

- Langfang WWTP
- Langfang WRP
- Zunhua WTP

#### **Jiangsu Province:**

- Changshu WWTP
- Dafeng WTP
- Guanyun WTP 1
- Guanyun WTP 2
- Taizhou WWTP
- Wuxi WWTP 1
- Wuxi WWTP 2
- Yangkou WTP
- Yangzhou WWTP

#### **Liaoning Province:**

- Liaoyang WWTP  
(with recycled output)

#### **Tianjin Province:**

- Beichen WWTP
- Beichen WRP

#### **Zhejiang Province:**

- Tiantai WWTP

## LETTER TO UNITHOLDERS

# THROUGH ACQUISITION AND EXPANSION OPPORTUNITIES, TARIFF INCREASES AND OPERATING COSTS MANAGEMENT, WE ENDEAVOUR TO ENHANCE CASH FLOW AND IMPROVE DISTRIBUTIONS TO UNITHOLDERS.

Dear Unitholders,

On behalf of the board of directors of Hyflux Water Trust Management Pte. Ltd., is the Trustee-Manager of Hyflux Water Trust ("HWT"), we present the first annual report for the financial period ended 31 December 2008.

Hyflux Water Trust was successfully listed on 3 December 2007 on Singapore Exchange Securities Trading Ltd ("SGX-ST"). It is the first pure-play water business trust to be listed on a stock exchange in Asia. In April 2008, this listing was nominated and highly commended by Global Water Intelligence as the Water Deal of the Year.

HWT's mandate is to invest in water-related infrastructure business in the People's Republic of China ("PRC"), India, the Middle East and North Africa ("MENA") region and other high-growth markets globally. Our current portfolio of 17 water plants, all in the PRC, as well as another plant expected to be acquired around or after June 2009, operate under 20 to 30 year concession arrangements, in line with our objective to generate long-term, regular and predictable cash distributions to unitholders.

### MAIDEN YEAR PERFORMANCE

Despite the current global financial and economic crisis, we are pleased to report that our maiden year financial performance exceeded our Initial Public Offering ("IPO") forecast. For the financial period ended 31 December 2008, the total distributable cash was S\$10.2 million, compared to the forecast of S\$10.0 million. The comparable cash distribution per unit, after waiver of entitlement by HWT's Sponsor, Hyflux Ltd, of 4.96 Singapore cents exceeded the forecast of 4.88 Singapore cents.

The average utilisation rate of 47% at the end of 4Q08 for the completed plants in the initial portfolio was much lower than the forecast utilisation rate of 79.0%. This is mainly due to slow ramp-up in utilisation by industries and plant construction delays. However, the financial impact of the lower than expected utilisation rate was mitigated by the reduction in plant operating expenses, minimum off-take provisions in concession agreements and tariff increases. The average water throughput during FY2008 went up by 45% from

122,000 m<sup>3</sup>/day in December 2007 to 177,000 m<sup>3</sup>/day in December 2008.

HWT's unit price has not been spared from the adverse impact of the global financial and economic crisis. As at the date of this report, HWT's unit price has decreased by about 64% since its IPO, in line with general market conditions.

### PORTFOLIO UPDATE

By the end of FY2008, 12 of the 13 plants in the initial portfolio had been completed. The thirteenth and last plant in the initial portfolio will be completed by 1H09.

Five plants in our portfolio have concession agreements with "in-built" options to expand the existing design capacities. During FY2008, we have been approached by some of the local government authorities to evaluate expansion and modification opportunities for some of our plants. We continue to diligently consider these opportunities against HWT's investment criteria.

## LETTER TO UNITHOLDERS (cont'd)

In December 2008, four additional plants (two water treatment plants and two wastewater treatment plants) were acquired from our Sponsor, under the deed of right of first offer, right of first refusal and right to match ("ROFOAR"). These newly acquired plants have increased the total designed capacity of our portfolio from 420,000 m<sup>3</sup>/day to 560,000 m<sup>3</sup>/day.

The fifth plant, a wastewater treatment plant with a 20,000 m<sup>3</sup>/day capacity, is expected to be acquired around or after June 2009 (collectively "ROFOAR Plants"). Upon the completion of this acquisition, HWT's entire portfolio of 18 water plants will have a total designed capacity of 580,000 m<sup>3</sup>/day.

Going forward, the Trustee-Manager will adopt a cautious acquisition strategy. Any acquisition would have to meet HWT's stringent investment criteria for the long term.

### PRUDENT CAPITAL MANAGEMENT

As at 31 December 2008, HWT's debt to asset (excluding goodwill) ratio stood at 17%, after accounting for the loan drawn down to fund the acquisition of the four ROFOAR plants. With the expected acquisition of the fifth water plant around or after June 2009, the debt to asset ratio will increase to about 24%. This low level of gearing will give us the financial flexibility to continue to tap on the debt market to fund and grow our portfolio when market conditions improve.

### OUTLOOK FOR 2009

Demand contraction is already evident in the PRC with many factories, especially those in the export-oriented industries, downsizing or ceasing operations.

Notwithstanding the difficult global economic environment, the Trustee-Manager is reasonably optimistic about HWT's prospects for FY2009. The overall medium to long-term outlook for the global water industry, especially

in the PRC, remains positive and promising. Like many governments in the world, the Chinese government has introduced stimulus plans to invigorate the Chinese economy. Since the water industry is one of the most crucial infrastructure sectors in the PRC and HWT's water-related assets are all currently located in the PRC, the Trustee-Manager believes that HWT is well placed to benefit from the Chinese government's initiatives.



*Seated*  
Dr Chua Yong Hai, Chairman

*Standing*  
Mr Gary Kee, CEO

## LETTER TO UNITHOLDERS (cont'd)



Liaoyang WRP

### MOVING AHEAD

The Trustee-Manager will continue to leverage on the synergistic support and strengths of our Sponsor, including its extensive industry and markets knowledge, domain expertise, technological resources and capabilities and relationships with businesses and government authorities in key markets.

We will stay the stable, pragmatic course and look to expand our portfolio via organic growth, in-built expansion potential, acquisition of accretive assets that can deliver regular and predictable distributions to our unitholders.

We will continue to focus on pro-active asset and risk management, prudent capital management and cost control.

In addition, we will also endeavour to enhance cash flows by seeking tariff increases where appropriate. On cost management, our service providers already guarantee the operating

efficiencies of our plants and most of our operating costs, hence providing cost certainty to our operations. We will continue to pro-actively manage and reduce such operating costs.

Barring any unforeseen further deterioration in the global economy, the Trustee-Manager is cautiously confident that it will be able to deliver a distribution per unit of 5.42 Singapore cents (comprising 5.26 Singapore cents for the initial portfolio plants and 0.16 Singapore cents for the ROFOAR plants) for FY2009.

### IN APPRECIATION

On behalf of the Board of Directors, we would like to thank our customers, partners, bankers, business associates, employees and unitholders for their unwavering support and understanding during and since HWT's listing. The support, expert guidance and cooperation of our Sponsor and all the professional service providers are also deeply appreciated.

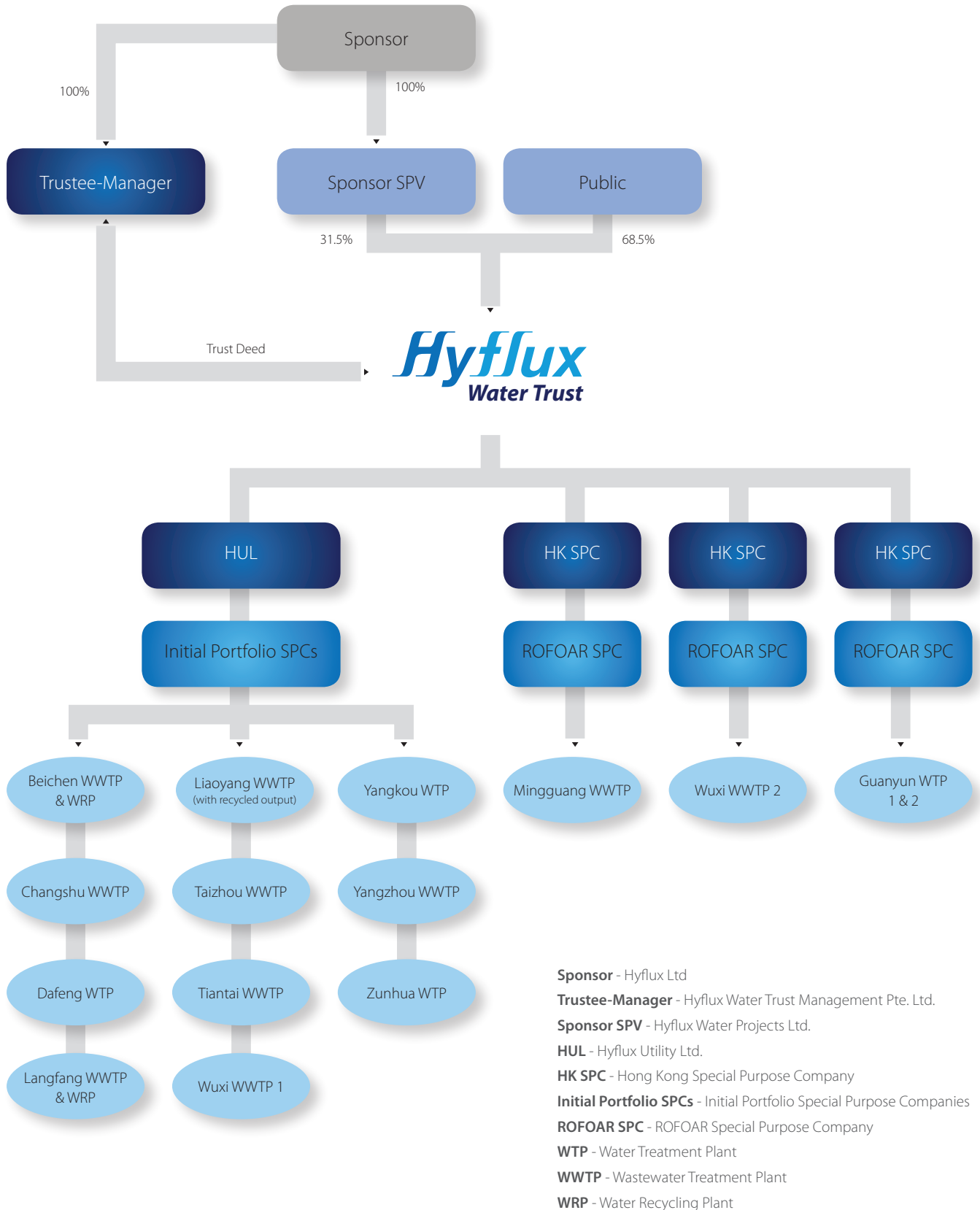
Last but not least, we would like to express our heartfelt appreciation to the Board of Directors for their invaluable advice and insights during our debut year of business.

**Dr Chua Yong Hai**  
Chairman

**Mr Gary Kee**  
CEO

6 March 2009

## CORPORATE STRUCTURE



## BOARD OF DIRECTORS



### Seated

(L-R): Mr Gary Kee, Dr Chua Yong Hai, Ms Olivia Lum

### Standing

(L-R): Mr Sam Ong, Mr Lai Chong Meng, Mr Ivan Png, Mr Simon Tay

### Dr Chua Yong Hai

*Independent Director and Chairman of the Board*

Dr Chua Yong Hai was appointed as Independent Director and Chairman of the Board on 3 October 2007.

He brings to the Board many years of top management and corporate governance experience in the public, real estate, investment and fund management, engineering and manufacturing sectors.

In the public sector, his last positions were Director of Investments in the Ministry of Finance and concurrently the first General Manager of Temasek Holdings Private Limited, the Singapore government investment holding vehicle.

In the private sector, he is currently the Chairman of Asia-Pacific Investment Company Limited, Frasers Centrepoint Asset Management (Commercial) Limited and Cambridge Industrial Trust Management Limited and the Deputy Chairman of Straits Asia Resources Limited. Previously, he was

the Managing Director and CEO of United Engineers Limited and the Group General Manager of Suntec City Development Private Limited. He had also held non-executive directorship appointments in many other listed and private companies in the Asia-Pacific region.

A Singapore government scholar and qualified chemical engineer, Dr Chua holds a BSc(Hons) degree and a Graduate Diploma in Business Administration from the then University of Singapore and a PhD in Chemical Engineering from the University of New South Wales.

## BOARD OF DIRECTORS (cont'd)

### Mr Gary Kee

*Non-Independent and Executive Director and CEO*

Mr Gary Kee was appointed as CEO with effect from 21 February 2009 and Executive Director with effect from 23 February 2009. He has full executive responsibility over the business directions and operational decisions in the day-to-day management of the Trustee-Manager.

Prior to this appointment, Mr Kee was with Hewlett Packard for 23 years. He last served as Director, Head of Strategy and Corporate Development for Asia Pacific & Japan. In this role, he was responsible for developing strategies to support inorganic growth and managing mergers and acquisitions, joint ventures, minority equity investment and divestment activities for the region. He has also held numerous senior regional and global management positions in finance, operations and strategic business development during his tenure in Hewlett Packard and has had extensive exposure to and involvement in a broad spectrum of products and services businesses.

Before joining Hewlett Packard, Mr Kee was a Management Consultant with Arthur Andersen Associates (now known as Accenture). His consulting engagements included clients from the oil and gas, manufacturing and banking industries in Jakarta, Balikpapan, Kuala Lumpur, Singapore and London.

Mr Kee has also served as a Board member of various companies. He is currently a Board director of Jurong Town Corporation.

Mr Kee holds a Bachelor of Commerce from McMaster University, Canada and an MBA from the University of Texas at Arlington, USA.

### Ms Olivia Lum

*Non-Independent, Non-Executive Director*

Ms Olivia Lum was appointed as a Non-Independent and Non-Executive Director on 28 September 2007.

She is currently the Group CEO, President and Managing Director of Hyflux Ltd.

Ms Lum started corporate life as a chemist with Glaxo Pharmaceutical and left in 1989 to start up Hydrochem (S) Pte Ltd, the precursor to Hyflux Ltd. Managing the Hyflux Group for close to 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 the Singapore Parliament, Ms Lum holds several positions in the public service. She is a Member of the NUS Board of Trustees, Temasek Life Sciences Laboratory Limited as well as National University Health System. In addition to her commitments in Hyflux, Ms Lum is also a member of the Singapore-Tianjin Economic & Trade Council and the Singapore-Jiangsu Cooperation Council.

Among the many accolades Ms Lum has received for her entrepreneurial achievements are the Regional Growth Award by Nihon Keizai Shimbun at the 11th Nikkei Asia Prize 2006 and most recently the

Rising Asia – The Next 10 Years Award by the Singapore Institute of International Affairs (SIIA) and AXN ASIA. She was also named Asiamoney's Corporate Executive of the Year 2005 in Singapore.

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

### Mr Lai Chong Meng

*Independent Director*

Mr Lai Chong Meng was appointed as an Independent Director on 3 October 2007.

Mr Lai has more than 30 years of senior management experience in a variety of industries such as property development, sales and marketing, engineering and construction, design and manufacturing of acoustic products, shipbuilding and oil-rig building.

Mr Lai is currently a director and CEO of three Taiwan-based companies in the waste management business namely, Cleanaway-Kang Lien Co. Ltd, Kao Lien Cleanaway Co. Ltd and Hsiung Wei Co. Ltd. From 1995 to 2007, he was Managing Director of Brambles Asia Pte Ltd, a company engaged in B2B services in information management, logistics and waste management. Mr Lai has been registered as a Professional Engineer with the Professional Engineers Board in Singapore from 1975 to 2005 and has held the professional designation of Chartered Electrical Engineer from The Institution of Electrical Engineers since 1975.

Mr Lai holds an MBA from the National University of Singapore as well as the University of California, Los Angeles.

## BOARD OF DIRECTORS (cont'd)

### Mr Ivan Png

#### *Independent Director*

Mr Ivan Png was appointed as an Independent Director on 3 October 2007. Mr Png is a Lim Kim San Professor in the School of Business, and Professor of Information Systems and Economics at the National University of Singapore.

From 2005 to 2006, he was a Nominated Member of the Singapore Parliament. He was previously a faculty member at the University of California, Los Angeles, and the Hong Kong University of Science and Technology.

Mr Png is currently an Independent Director of Healthway Medical Corporation Ltd, and a member of the Trustworthy Computing Academic Advisory Board of Microsoft Corporation. He is also a consultant with Economic Analysis Associates LLP.

Mr Png holds a Bachelor of Arts (First Class Honours) in Economics from the University of Cambridge and a Doctorate of Philosophy in Business from the Stanford University.

### Mr Simon Tay

#### *Independent Director*

Mr Simon Tay was appointed as an Independent Director on 1 May 2008. Mr Tay holds a Masters in Law from Harvard Law School and a Bachelor of Laws (Hons) from the National University of Singapore and is a qualified Advocate and Solicitor of the Supreme Court of Singapore. He is an Associate Professor and teaches international law at the Faculty of Law, National University of Singapore.

Mr Tay is concurrently chairman of the Singapore Institute of International Affairs, a non-governmental think tank that represents Singapore in the influential ASEAN-ISIS network of regional think tanks. From July 2002 to 31 March 2008, he was the chairman of the National Environment Agency, Singapore's major agency for environmental protection and public health. In Fall 2003, he was a visiting professor at the Harvard Law School and Fletcher School of Law and Diplomacy. In 2009, he is teaching at Yale University and is Schwartz Fellow at Asia Society.

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

Mr Tay was a Fulbright scholar at Harvard Law School from 1993-1994, where he won the Laylin prize for the best thesis in international law. In 2000, the World Economic Forum (Davos) named him a "global leader of tomorrow". In 2002, he was awarded an Eisenhower Fellowship, one of Singapore's first non-governmental recipients of this award.

### Mr Sam Ong

#### *Non-Independent, Non-Executive Director*

Mr Sam Ong was appointed as a Non-Independent and Non-Executive Director on 2 October 2008. He is currently the Hyflux Group Deputy CEO & CFO. He joined Hyflux Ltd in September 2006.

Mr Ong heads joint ventures management, legal, mergers and acquisitions, risk management and investor relations for the Hyflux Group.

After being appointed Group Deputy CEO in 2008, Mr Ong's expanded portfolio included spearheading the Hyflux Group's overall operational and financial management, corporate governance and overseeing the infrastructure investment programme and the energy business. Notably, Mr Ong led the launch of HWT amongst many other key corporate transactions.

Prior to joining Hyflux Ltd, Mr Ong held global and Asia Pacific leadership positions in the USA and in Singapore, ranging from treasury and finance, pension fund investment, strategic planning, project financing to business development for 18 years.

Mr Ong holds a Bachelor's degree in Economics from the University of Alberta, Canada and an MBA from Drake University, USA.

## SENIOR MANAGEMENT

### Mr Gary Kee

*Non-Independent and Executive Director and CEO*

(Refer to Board of Directors Section)

### Mr Wong Heng Hwie

*Vice President, Finance*

Mr Wong is responsible for the overall financial management, corporate compliance, accounting and internal controls of HWT. Mr Wong has more than 15 years of regional working experience in local listed companies, U.S. multi-national corporations and a leading international accounting firm. He had participated in numerous merger and acquisition exercises including joint ventures in the region. He was also involved in fund raising exercises comprising syndicated loans and banking facilities for the general funding requirement of these companies. He was primarily responsible for the companies' reporting functions and the principal internal control systems and procedures.

Mr Wong holds a Bachelor of Accountancy (Merit) from the Nanyang Technological University of Singapore. He is a non-practicing member of the Institute of Certified Public Accountants of Singapore.

### Mr Pang Yeong Piao

*Vice President, Legal and Company Secretary*

Mr Pang is responsible for all legal matters as well as compliance with applicable laws, regulatory requirements and corporate governance. He works with the CEO and other members of the Trustee-Manager's management team to formulate policies and procedures relating to legal, corporate governance and corporate secretarial matters.

Mr Pang previously practised with a major local law firm and worked in the banking entity of a blue-chip company listed on the New York Stock Exchange. Prior to joining the Trustee-Manager, Mr Pang was counsel in the Hyflux Group legal team, where his areas of responsibilities included both local as well as MENA region transactions and matters.

Mr Pang holds a Bachelor of Laws (Hons) from the National University of Singapore and was admitted as an Advocate and Solicitor of the Supreme Court of Singapore in 2000.

### Mr Daniel Ong

*Vice President, Investment*

Mr Ong is responsible for the evaluation and execution of potential acquisition opportunities for HWT as well as expansion and modification investments of the existing asset portfolio.

Prior to joining the Trustee-Manager, Mr Ong held senior managerial positions in business development, corporate development, and corporate finance with various local listed companies in the heavy lift & haulage, power and industrial

sectors. Mr Ong had participated in various corporate exercises including business co-operations, joint ventures, mergers and acquisitions, divestments, financing for start-up companies, initial public offerings, and rights issue offerings.

Mr Ong holds a Bachelor of Science (Merit) majoring in Economics from the National University of Singapore and an MBA in Investment and Finance from the University of Hull.



#### *Seated*

*(L-R): Mr Wong Heng Hwie, Mr Gary Kee*

#### *Standing*

*(L-R): Mr Pang Yeong Piao, Mr Daniel Ong*



a **unique** investment

## We are Hyflux Water Trust.

Hyflux Water trust is the first pure play water business trust to be listed in Asia. We aim to be a leading investor in water-related infrastructure assets in the People's Republic of China ("PRC"), India, the MENA region and other high-growth markets globally. Through selective acquisition of such assets, we strive to generate long-term, regular and predictable cash flows for distribution to our unitholders.

As a business trust, HWT is able to distribute substantially all its cash flows to unitholders. In addition, such distributions, regardless of whether they are made to corporate or individual unitholders, will be exempt from Singapore income tax.

To date, HWT has established a strong presence in the PRC, managing a portfolio of 17 water plants, with a combined designed capacity of 560,000 m<sup>3</sup>/day.

Our water plants are spread across six different provinces in the PRC and are located strategically in areas such as high-growth industrial parks, growing economic development zones, etc.



*Beichen WWTP*

The 17 water plants in HWT's portfolio are relatively new plants and operate under exclusive and long-term concession agreements ranging from 20 to 30 years. Minimum off-take and tariff adjustment provisions contribute to operational margins and cash flow stability which in turn provide more certainty in distribution to unitholders.

In our Operations and Maintenance ("O&M") agreements and Management Services ("MS") agreements, our service providers have guaranteed most of the

operating costs, hence providing costs certainty to HWT throughout the concession period.

The Board of Directors and Management of the Trustee-Manager possess extensive experience in and strong understanding of various relevant industries, corporate governance, investment and fund management.

With these key elements, HWT presents a unique investment opportunity.

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FIRST PURE-PLAY GLOBAL WATER BUSINESS TRUST TO BE LISTED IN ASIA

**creating** value for unitholders



*Mingguang WWTP*



Yangzhou WWTP

The water sectors in the PRC, India and the MENA region are experiencing tremendous growth due to their increasing need for scarce water resources caused by growing population, rapid industrialisation and urbanisation, rising standards of living and worsening pollution. Yet, their infrastructures are currently not developed sufficiently to meet such demand.

As their governments look to instill prudent management of scarce water resources, current water tariffs may potentially be revised upwards as a measure to achieve this objective.

These circumstances present HWT with attractive investment opportunities. Together with our Sponsor's competitive advantage in membrane technology and operational excellence, HWT will continue to look to create and enhance value to our unitholders through such opportunities.

To achieve this objective, the Trustee-Manager focuses on the following strategies:

- (a) Strategically expand the size of HWT's portfolio of water-related infrastructure assets;
- (b) Build and maintain a portfolio of high quality assets; and
- (c) Maintain prudent capital structure.

The Trustee-Manager will expand HWT's portfolio via organic growth, in-built expansion potential and acquisitions of accretive assets.

To maintain a high quality asset portfolio, HWT will only consider investing in assets that meet the following criteria:

- (a) Be involved in treatment, clarification, purification and/or distribution of raw water, seawater, wastewater, and/or recycled water for industrial, commercial, municipal, agricultural and/or residential users;
- (b) Be yield accretive;
- (c) Provide long-term, regular and predictable cash flow;
- (d) Have an acceptable level of off-take risk; and
- (e) Possess sound market fundamentals.

Finally, the Trustee-Manager will pursue prudent capital management with a debt to asset (excluding goodwill) ratio of not greater than 60%. The goal is to evaluate and implement the most effective funding strategies to support the growth of HWT and ultimately to create value and enhance distributable cash flows to unitholders.

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## EFFECTIVE STRATEGIES FOR EXPANSION, INVESTMENT AND CAPITAL MANAGEMENT



**foundations** for the future

Taizhou WWTP



*Langfang WWTP*

The world is experiencing a deep economic downturn. The PRC is not spared, particularly in the export-oriented provinces where industries have been adversely affected by the sharp fall in external demand. As HWT's assets are all currently located in the PRC, the Trustee-Manager takes a conservative view on FY2009 prospects.

Notwithstanding the challenging global economic environment, the Trustee-Manager remains optimistic about the overall medium to long-term outlook for the water sector of the countries in which HWT plans to invest, particularly the PRC.

The investment opportunities in the PRC's water sector are driven primarily by the government's urgency to address the country's critical water pollution and water shortage issues.

In November 2008, the PRC government introduced a RMB4 trillion stimulus plan to invigorate the economy, of which a substantial portion will be spent on infrastructure projects. The Trustee-Manager believes that the water sector will be one of the beneficiaries. HWT's strategic intent is to actively participate in the government's relentless drive to improve water-related infrastructure across the country.

Therefore, HWT is well positioned to deliver our growth potential when the global economy recovers and credit and capital markets ease.



*Beichen WWTP*

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POSITIONED TO BENEFIT FROM  
WATER SECTOR GROWTH

## PERFORMANCE REVIEW



Mingguang WWTP

### Initial Portfolio

At the time of the IPO, there were 13 water plants in HWT's portfolio ("Initial Portfolio"), of which seven water plants were operational (designed capacity of 245,000 m<sup>3</sup>/day) whilst the remaining six water plants were under construction. For the period under review, five water plants, namely, Beichen WWTP, Beichen WRP, Dafeng WTP, Langfang WRP and Yangzhou WWTP were completed and added another 135,000 m<sup>3</sup>/day of designed capacity to the Initial Portfolio. At the end of 4Q08, the total designed capacity of the Initial Portfolio's plants in operations has increased to 380,000 m<sup>3</sup>/day.

The remaining plant of the Initial Portfolio still under construction, Zunhua WTP (designed capacity of 40,000 m<sup>3</sup>/day), is expected to be fully operational by 1H09 once its entire

water distribution pipeline network is completed and connected to end users in its concession area.

The average utilisation of the seven operational plants at the time of the IPO was 50%, representing an average water throughput of approximately 122,000 m<sup>3</sup>/day. At the end of 4Q08, the average water throughput of the combined 12 operational plants increased to 177,000 m<sup>3</sup>/day, representing an average utilisation rate of 47%. The utilisation rate was impacted by:

- Slower than expected demand due to the impact of economic downturn in the PRC.
- Five plants were newly completed during the year, including two plants in Beichen that were only completed in December 2008 and these have low initial ramp-up volume.

Plant	Utilisation Rate*
Beichen WRP	B
Beichen WWTP	B
Changshu WWTP	A
Dafeng WTP	B
Langfang WRP	B
Langfang WWTP	A
Liaoyang WWTP (with recycled output)	A
Taizhou WWTP	B
Tiantai WWTP	A
Wuxi WWTP 1	A
Yangkou WTP	B
Yangzhou WWTP	A

\*Utilisation Rate:

A: Utilisation rate > or = 50%

B: Utilisation rate < 50%

## PERFORMANCE REVIEW (cont'd)

### ROFOAR Acquisition

On 23 December 2008, HWT completed the acquisition of four ROFOAR plants with a combined designed capacity of 140,000 m<sup>3</sup>/day.

Details of the four ROFOAR plants are as follows:

ROFOAR Plant	PCOD*	Concession Type and Period (Years)	Designed Capacity (m <sup>3</sup> /day)
Mingguang WWTP	Jul-08	#TOT, 30	30,000
Guanyun WTP 1	Aug-08	@BOT, 30	50,000
Guanyun WTP 2	Dec-08	@BOT, 30	50,000
Wuxi WWTP 2	Dec-08	#TOT, 30	10,000

\*PCOD: Project Commercial Operation Date

#TOT: Transfer-Own-Transfer

@BOT: Build-Own-Transfer

Following the acquisition of the four ROFOAR plants, the total designed capacity of HWT's portfolio increased to 560,000 m<sup>3</sup>/day.

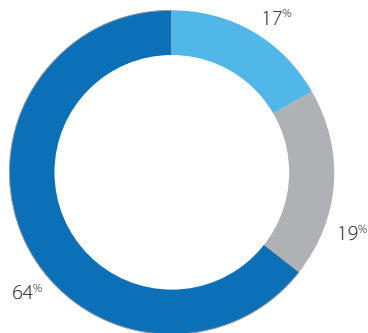
The acquisition of the fifth ROFOAR plant, Yangkou Rudong WWTP (designed capacity of 20,000 m<sup>3</sup>/day), is expected to be completed around or after June 2009, but not later than

December 2009. Upon completion, the total designed capacity of the portfolio will increase to 580,000 m<sup>3</sup>/day.

Going forward, the Trustee-Manager expects the total water throughput of HWT's portfolio to improve as the wastewater volume and water demand in these concession areas increase over time.

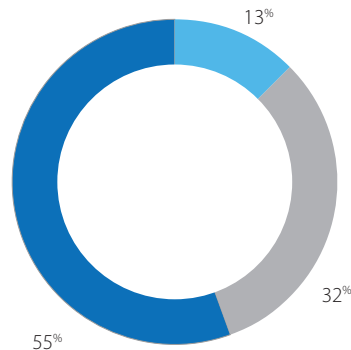
### Designed Capacity by Plant Type

Initial Portfolio (13 plants)



■ WTP - 80,000m<sup>3</sup>/day  
 ■ WRP - 70,000m<sup>3</sup>/day  
 ■ WWTP - 270,000m<sup>3</sup>/day

Initial Portfolio and ROFOAR Tranche 1 (17 plants)



■ WTP - 180,000m<sup>3</sup>/day  
 ■ WRP - 70,000m<sup>3</sup>/day  
 ■ WWTP - 310,000m<sup>3</sup>/day



#### Guanyun WTP 1

The Guanyun WTP 1 is located in the Guanyun Economic Development Zone, in the northeast of Jiangsu Province. The WTP draws water from rivers to supply to both domestic and industrial customers. Guanyun WTP 1 and Guanyun WTP 2 are situated next to each other.



#### Guanyun WTP 2

The Guanyun WTP 2 is located in the Guanyun Economic Development Zone, in the northeast of Jiangsu Province. The WTP draws water from the rivers for treatment and supply to both domestic and industrial customers. Guanyun WTP 1 and WTP 2 are situated next to each other.

## PERFORMANCE REVIEW (cont'd)



### Mingguang WWTP

*The Mingguang WWTP is located in the Mingguang City Construction Planning Area, Mingguang City in Anhui Province. The WWTP treats a mixture of domestic and industrial wastewater.*



### Wuxi WWTP 2

*The Wuxi WWTP 2 is located in the north of Wuxi City, Province. It is located in the same concession area as the Wuxi WWTP 1.*

### Distributable Cash & DPU Performance

The distributable cash ("Distributable Cash") of HWT is derived from cash flows generated from treatment of raw water and wastewater and supply of treated water by our water plants.

On 31 October 2008, HWT announced amendments to the definition of Distributable Cash to take into account funding requirements (such as project financing and term loan arrangements) which the Trustee-Manager may evaluate and execute from time to time, as well as any other proceeds that HWT may receive or refund from time to time.

In our IPO Prospectus, it was stated that HWT will make distributions to unitholders on a semi-annual basis, with the amount calculated as at 30 June and 31 December each year for the six-month period ended on each of the said dates. All distributions will be paid within 90 days after the end of each distribution period.

For 1H08, Distributable Cash was S\$4.5 million. Distribution Per Unit ("DPU"), after waiver of the Sponsor's distribution entitlement, was 2.17 Singapore cents, which was 0.08 Singapore cents or 4% higher than the forecast 1H08 DPU of 2.09 Singapore cents.

For 2H08, Distributable Cash was S\$5.7 million. DPU, after waiver of the Sponsor's entitlement, was 2.79 Singapore cents, which was in line with the forecast 2H08 DPU of 2.79 Singapore cents.

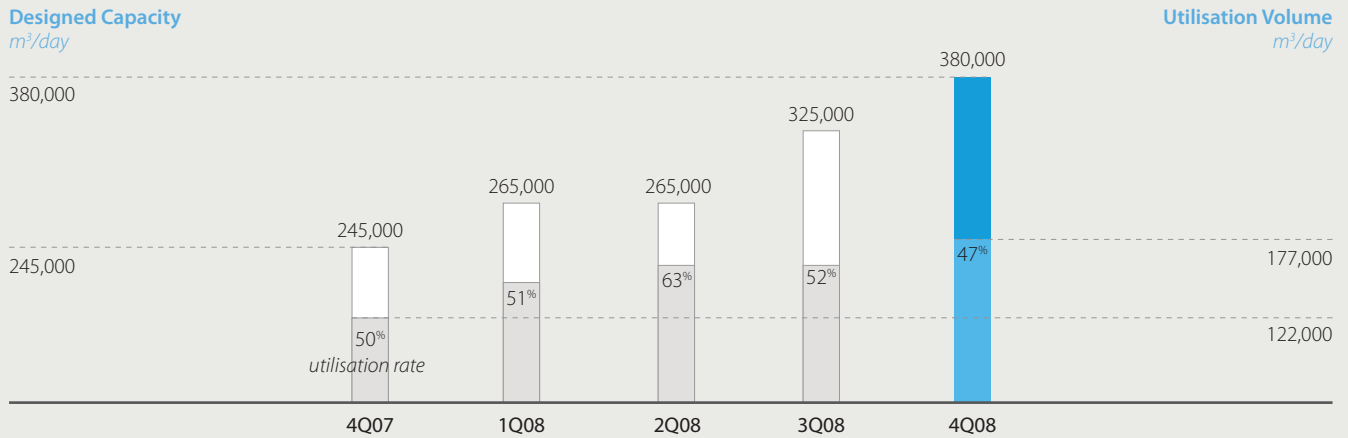
Total Distributable Cash for FY08 was S\$10.2 million. Total DPU for FY08, after waiver of the Sponsor's distribution entitlement, was 4.96 Singapore cents, which was 2% higher than the FY08 forecast DPU of 4.88 Singapore cents.

### Unit Price Performance

Since the IPO of HWT, the highest and lowest prices for HWT units traded on the SGX-ST were S\$0.905 and S\$0.300 per unit respectively and the average daily trading volume was about 965,000 units.

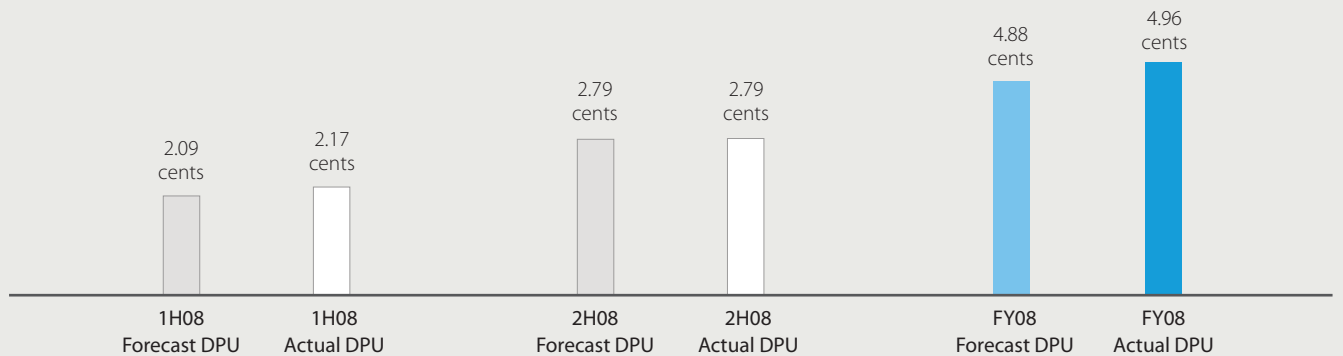
## PERFORMANCE HIGHLIGHTS

### Designed Capacity and Utilisation Volume for Initial Portfolio



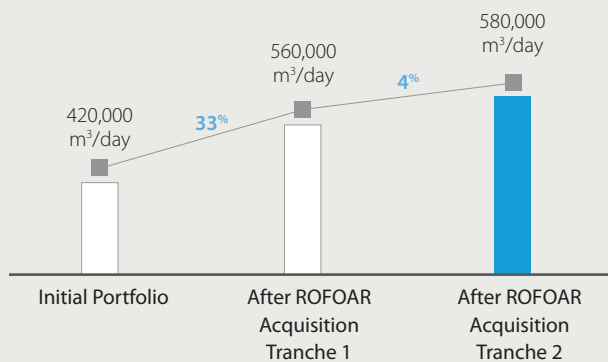
### Distribution Per Unit (DPU)

Forecast vs Actual



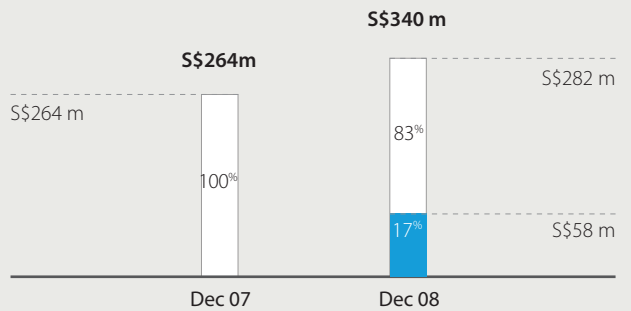
### Increase in Total Designed Capacity

After ROFOAR Acquisition



### Debt to Asset (excluding goodwill)

(\$m)



Total Asset (excluding goodwill)  
 Less Debt (millions)  
 Debt (millions)

## OUR PORTFOLIO

### Water Treatment Plants



*Dafeng WTP*

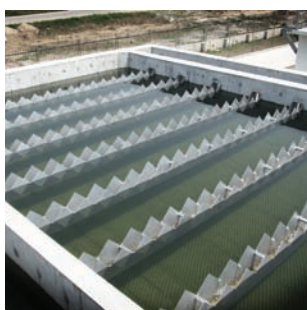
Water Treatment Plants (“WTPs”) treat raw water drawn from major lakes, rivers and wells which are situated in close proximity to the WTPs, for use in their respective concession areas. The process of screening, flocculation, settling, filtration and disinfection processes are applied to remove suspended solids and colloids to meet water quality standards.

The water treatment process in WTPs is typically arranged in a “treatment train” (a series of processes applied in sequence), including screening, flocculation, settling, filtration and disinfection.

Five of our plants are WTPs. The WTPs are located in two provinces in the PRC, Jiangsu and Hebei and have a

total designed capacity of 180,000 m<sup>3</sup>/day, representing 32% of HWT’s portfolio of water assets.

The WTPs are new with four of the WTPs completed in 2008. Yangkou WTP and Dafeng WTP produce water suitable for industrial usage only, while the remaining three WTPs supply potable water for domestic consumption.



*Dafeng WTP*

Location	Plant Name	Designed Capacity (m <sup>3</sup> /day)	PCOD	Concession Period Start Date	Concession Period
Hebei	Zunhua WTP	40,000	Dec 2008	Dec 2008	30 years
Jiangsu	Dafeng WTP	20,000	Feb 2008	Feb 2008	30 years
	Guanyun WTP 1	50,000	Aug 2008	Nov 2008	30 years
	Guanyun WTP 2	50,000	Dec 2008	Dec 2008	30 years
	Yangkou WTP	20,000	Aug 2007	Nov 2005	30 years

## OUR PORTFOLIO (cont'd)

### Wastewater Treatment Plants



Liaoyang WWTP

Wastewater Treatment Plants (“WWTPs”) treat wastewater collected from surrounding industrial and/or residential areas before such water is discharged into rivers or routed to water recycling plants for recycling. The WWTPs utilise tried and tested technology which are fine-tuned and customised for each WWTP in order to meet discharge standards. Chemical industrial wastewater often has high chemical oxygen demand

(“COD”) and high pollutant content. Wastewater treatment is a multi-stage process to eliminate or reduce the environmental damages caused by wastewater discharged into a natural water body. The wastewater treatment process in WWTPs typically comprises screening, activated sludge treatment, sedimentation and disinfection.

Ten of our plants are WWTPs. The WWTPs are located in six provinces

in the PRC, namely Anhui, Hebei, Jiangsu, Liaoning, Tianjin and Zhejiang. They have a total capacity of 310,000 m<sup>3</sup>/day, representing 55% of HWT’s portfolio of water assets.

The WWTPs are relatively new. Apart from Changshu WWTP, all the other WWTPs have been operating for about two years. These WWTPs treat industrial or domestic wastewater, or a mixture of both.

Location	Plant Name	Designed Capacity (m <sup>3</sup> /day)	PCOD	Concession Period Start Date	Concession Period
Anhui	Mingguang WWTP	30,000	Jul 2008	Jul 2008	30 years
Hebei	Langfang WWTP	80,000	Jun 2007	Jun 2007	25 years
Jiangsu	Changshu WWTP	30,000	Jun 2006	Oct 2004	27 years and 2 months
	Taizhou WWTP	20,000	Jan 2007	May 2005	21 years and 4 months
	Wuxi WWTP 1	20,000	Jan 2007	Nov 2005	30 years
	Wuxi WWTP 2	10,000	Dec 2008	Jun 2008	30 years
	Yangzhou WWTP	20,000	Jul 2008	Jul 2008	20 years
Liaoning	Liaoyang WWTP	30,000	Oct 2007	Oct 2007	30 years
Tianjin	Beichen WWTP	50,000	Dec 2008	Dec 2008	30 years
Zhejiang	Tiantai WWTP	20,000	Jan 2007	Jun 2004	21 years

## OUR PORTFOLIO (cont'd)

### Water Recycling Plants



Langfang WRP

Water Recycling Plants ("WRPs") are located next to the WWTPs and recycle treated wastewater discharged from WWTPs for onward sale and distribution to industrial and/or residential consumers. This arrangement greatly enhances the growth potential for HWT's business to maximise the revenue generated from the concession areas.

Wastewater recycling involves taking in highly treated wastewater effluent discharged from a WWTP and further removing contaminants to a level sufficiently low for re-use. The principal process flow includes flocculation/clarification and filtration.

Two of our plants are WRPs. In addition, discharged wastewater from Liaoyang WWTP is recycled and sold. The WRPs

are located in three provinces in the PRC, Liaoning, Hebei and Tianjin and have a total designed capacity of 70,000 m<sup>3</sup>/day, representing 13% of HWT's portfolio of water assets.

The two WRPs were completed in 2H08. Designed and constructed to suit the needs of users in their respective concession areas, these two WRPs utilise membranes from our Sponsor.



Beichen WRP

Location	Plant Name	Designed Capacity (m <sup>3</sup> /day)	PCOD	Concession Period Start Date	Concession Period
Hebei	Langfang WRP	40,000	Oct 2008	June 2007	25 years
Tianjin	Beichen WRP	5,000	Dec 2008	Dec 2008	30 years
Liaoning	Liaoyang WWTP (recycled output)	25,000	Apr 2008	Apr 2008	30 years

## CORPORATE GOVERNANCE STATEMENT

### TRUSTEE-MANAGER'S ROLE

Hyflux Water Trust Management Pte. Ltd., as Trustee-Manager of Hyflux Water Trust ("Trustee-Manager"), has general powers of management over the assets of HWT for the benefits of unitholders. The Trustee-Manager's Board of Directors ("Board") and management ("Management") are committed to maintaining good corporate governance so as to protect and safeguard unitholders' interests.

The regime under the Business Trusts Act, Chapter 31A ("BTA") stipulates requirements and obligations in respect of corporate governance. The Business Trusts Regulations 2005 ("BTR") set out the requirements for, among other things, the board composition, audit committee composition and independence of directors of the Trustee-Manager. The Trustee-Manager, in addition to complying with the BTA and BTR, benchmarks its corporate governance policies and practices against the Code of Corporate Governance 2005.

This report sets out the key aspects of the Trustee-Manager's corporate governance framework and practices.

### A. BOARD MATTERS

#### THE BOARD'S CONDUCT OF AFFAIRS

##### **Principle 1**

*Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board.*

The key responsibilities of the Board include:

- overall corporate governance of the Trustee-Manager;
- guiding the corporate strategy and direction of the Trustee-Manager;
- ensuring that senior management exercises business leadership with integrity and enterprise;
- overseeing the proper conduct of the Trustee-Manager; and
- establishing a framework of effective internal controls and risk management processes.

## CORPORATE GOVERNANCE STATEMENT (cont'd)

To assist in the discharge of its responsibilities, the Board has established a number of Board Committees namely, the Audit Committee ("AC"), Nominating and Remuneration Committee ("NRC") and Risk Management and Compliance Committee ("RMCC"). These committees function within clearly defined terms of references and report to the Board on a regular basis.

The Board meets at least once every quarter but more frequently if necessary, to discharge its responsibilities.

The Board has approved a set of internal controls which sets out appropriate approval limits for capital expenditure, investments, divestments and debt, as well as arrangements in relation to cheque signatories. In addition, appropriate sub-limits are also delegated to management to facilitate operational efficiency.

The attendance of the Board members at the Board and Board Committee meetings for the period ended 31 December 2008 are as follows:

Name	Board of Directors		Audit Committee		Nominating and Remuneration Committee		Risk Management and Compliance Committee	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Chua Yong Hai #	8	8	6	5	3	3	3	2
Olivia Lum	8	7	–	–	3	3	–	–
Lai Chong Meng	8	8	6	6	–	–	3	3
Ivan Png	8	7	6	5	3	3	3	3
Simon Tay *	8	4	6	3	–	–	3	2
Sam Ong **	8	2	6	1	–	–	3	–
Gary Kee ***	–	–	–	–	–	–	–	–

### Notes

# Chua Yong Hai resigned from the Audit Committee and the Risk Management and Compliance Committee on 1 May 2008.

\* Simon Tay was appointed as an Independent Director on 1 May 2008.

\*\* Sam Ong was appointed as a Non-Independent, Non-Executive Director on 2 October 2008.

\*\*\* Gary Kee was appointed as an Executive Director on 23 February 2009.

## CORPORATE GOVERNANCE STATEMENT (cont'd)

### BOARD COMPOSITION AND GUIDANCE

#### **Principle 2**

*There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.*

The composition of the Board is determined using the following principles:

- at least a majority of the directors are independent from Management and business relationships with the Trustee-Manager;
- at least a majority of directors are independent from any single substantial shareholder of the Trustee-Manager;
- at least one-third of directors are independent from Management and business relationships with the Trustee-Manager and from every substantial shareholder of the Trustee-Manager;
- the Chairman of the Board should be a non-executive director; and
- the Board should comprise directors with a broad range of experience, including experience in the water infrastructure industry.

The Board comprises seven directors, four of whom are independent and two of whom are non-independent and non-executive. The sole executive director is also the CEO. The directors come from diverse backgrounds with various expertise and experience in management, finance, business and in infrastructure and environment related industries. This enables Management to benefit from their external, diverse and objective perspectives on issues that are brought before the Board. It also enables the Board to interact and work with Management through an active exchange of ideas and views to help shape the strategic process. This, together with a separation of the roles of the Chairman and the CEO, helps to build a healthy professional relationship between the Board and the Management, with clarity of roles and robust oversight of the business activities of the Trustee-Manager.

## CORPORATE GOVERNANCE STATEMENT (cont'd)

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

#### **Principle 3**

*There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.*

The positions of Chairman and CEO are held by two directors who are not related to each other. In addition to the overall management of the Board, the Chairman is also responsible for ensuring that the members of the Board and the Management work together with integrity and competency and engage constructively on strategy, business operations, enterprise risks and other aspects of the business of HWT. The CEO has full executive responsibility over the business directions and operational decisions in the day-to-day management of the Trustee-Manager. The distinct roles and division of responsibilities of the two positions ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.

### BOARD MEMBERSHIP AND BOARD PERFORMANCE

#### **Principle 4**

*There should be a formal and transparent process for the appointment of new directors to the Board.*

#### **Principle 5**

*There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.*

The NRC comprises a majority of independent directors and is chaired by an independent director. The members of the NRC are:

Chua Yong Hai	(Chairman of NRC, Independent Director)
Olivia Lum	(Non-Independent, Non-Executive Director)
Ivan Png	(Independent Director)

The NRC's duties include, among other things:

- reviewing and assessing candidates for directorships (including executive directorships) before making recommendations to the Board for appointment of directors;
- determining annually whether or not a director is independent in the manner provided in the BTR;
- deciding whether or not a Director is able to and has been adequately carrying out his duties as a Director;
- recommending the remuneration package for each director and the CEO; and
- reviewing the remuneration of Management.

## CORPORATE GOVERNANCE STATEMENT (cont'd)

In accordance with the BTR, a director is considered to be independent if he is independent from Management and business relationships with the Trustee-Manager and with any substantial shareholder of the Trustee-Manager.

The NRC has adopted a set of board performance appraisal criteria which has been endorsed by the Board. The performance evaluation exercise enables the NRC to assess the Board's effectiveness. A review of the Board's performance is undertaken by way of an assessment checklist completed by the directors, through which the directors assess the effectiveness of the Board as a whole. The collated findings are reported and where appropriate, recommendations are made to the Board on how it can discharge its duties more effectively.

### ACCESS TO INFORMATION AND ACCOUNTABILITY

#### **Principle 6**

*In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.*

#### **Principle 7**

*The Board should present a balanced and understandable assessment of the company's performance, position and prospects.*

Board members have separate and independent access to the Trustee-Manager's Management, the Company Secretary of the Trustee-Manager, and the external and internal auditors at all times. The Company Secretary attends and prepares minutes for all Board and Board Committee meetings, and assists the Board in compliance with relevant legal and statutory requirements and internal policies and procedures.

Board members are kept updated and informed on an on-going basis. Budget variance analyses and comprehensive quarterly and half-yearly financial statements are also provided and discussed at each quarterly Board meeting.

Directors, either singly or as a group, have the right to seek independent professional advice where necessary, to assist them in discharging their duties. The cost of such services is borne by the Trustee-Manager.

The Board is responsible for providing a balanced and comprehensive assessment of HWT's performance, position and prospects when presenting interim and other price sensitive public reports.

## CORPORATE GOVERNANCE STATEMENT (cont'd)

### B. REMUNERATION MATTERS

#### PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

##### **Principle 8**

*There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.*

#### LEVEL AND MIX OF REMUNERATION

##### **Principle 9**

*The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.*

#### DISCLOSURE ON REMUNERATION

##### **Principle 10**

*Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.*

The NRC comprises a majority of independent directors and is responsible for recommending to the Board the framework of compensation for all directors. The structure of the fees for independent directors is based on a framework of fixed basic fees plus additional fees for serving on Board committees. No director is involved in deciding his or her own remuneration.

The directors' fees are approved by the shareholder of the Trustee-Manager and are paid on a semi-annual basis. All the independent directors' fees, and the remuneration of the CEO and staff of the Trustee-Manager are paid by the Trustee-Manager, not by HWT. The non-independent directors are not paid any director's fee. For the period ended 31 December 2008, no individual director's fee was in excess of S\$250,000.

Appropriate levels of remuneration have been set to attract, retain and motivate the CEO and staff of the Trustee-Manager. The remuneration packages consist of both fixed and variable components, taking into account the performance of the individual and the Trustee-Manager.

No compensation was paid in the form of options in units or pursuant to any bonus or profit-sharing plan or any other profit-linked agreement or arrangement.

There were no immediate family members of directors or controlling shareholder in the employment of the Trustee-Manager and whose remuneration exceeded S\$150,000 during the period ended 31 December 2008.

## CORPORATE GOVERNANCE STATEMENT (cont'd)

### C. INTERNAL CONTROL AND AUDIT

#### AUDIT COMMITTEE, INTERNAL CONTROLS AND INTERNAL AUDIT

**Principle 11**

*The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.*

**Principle 12**

*The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.*

**Principle 13**

*The company should establish an internal audit function that is independent of the activities it audits.*

The members of the AC comprise a majority of independent directors as follows:

Lai Chong Meng	(Chairman of AC, Independent Director)
Ivan Png	(Independent Director)
Simon Tay	(Independent Director)
Sam Ong	(Non-Independent, Non-Executive Director)

The role of the AC is to monitor and evaluate the effectiveness of the Trustee-Manager's internal controls. The AC reviews the quality and reliability of information prepared for inclusion in financial reports, nominates the external auditors for the Board's approval and reviews the adequacy of external audits in respect of cost, scope and performance.

The AC also reviews the independence and objectivity of the external auditors, KPMG LLP ("KPMG"), and the nature and extent of the non-audit services rendered to HWT by them.

Subsidiaries of HWT have been independently reviewed but not audited by KPMG. Pursuant to Rule 716 of the SGX-ST Listing Manual, the Board and the AC are satisfied that appointing different auditors for these subsidiaries have not affected the overall standard and effectiveness of the Group's audit.

In performing its functions, the AC reviews the overall scope of external audits and the assistance given by the Trustee-Manager's officers to the auditors. It meets the external auditors without the presence of the Trustee-Manager's management regularly to discuss the scope and results of their audits. In addition, the AC reviews the financial statements of HWT before submission to the Board.

Changes to regulations and accounting standards are monitored closely by members of the AC. To keep pace with regulatory changes, where these changes have an important bearing on the Trustee-Manager or directors' disclosure obligations, the directors will be briefed during Board meetings, by relevant professionals where necessary. The Management also provides regular updates to the Board on financial results, market trends and business developments.

## CORPORATE GOVERNANCE STATEMENT (cont'd)

The Trustee-Manager has engaged Ethos Advisory Pte Ltd as its internal auditors. The internal auditors review and determine whether internal controls are adequate and functioning in a manner to provide reasonable assurance on the following:

- integrity, confidentiality and availability of critical financial, managerial and operating information;
- effectiveness and efficiencies of operations;
- safeguarding of assets; and
- compliance with policies, standards, procedures, applicable laws and regulations.

The internal auditors report directly to the Chairman of the AC on all internal audit matters. The AC reviews the overall scope of internal audits and discusses the results with the internal auditors regularly without the presence of Management. The AC is satisfied with the adequacy of the Trustee-Manager's internal controls established by Management.

The AC also reviews interested person transactions (discussed further under the section on Interested Person Transactions in Section E – Additional Information), hedging policies and internal policies and procedures.

The AC has reviewed and implemented a Whistle Blowing Policy to provide a trusted avenue for employees of the Trustee-Manager and HWT and its subsidiaries (the "Group"), who believe that they may have discovered malpractice or impropriety in the workplace, to come forward and report such issues in confidence.

### D. COMMUNICATIONS WITH UNITHOLDERS

#### **Principle 14**

*Companies should engage in regular, effective and fair communication with shareholders.*

#### **Principle 15**

*Companies should encourage greater shareholder participation at AGM and allow shareholders the opportunity to communicate their views on various matters affecting the company.*

The Trustee-Manager is committed to prompt disclosures of pertinent and relevant information to unitholders.

Quarterly and full year results, distribution notices, press releases, analysts briefing presentations, announcements on acquisitions, results of general meetings and other major developments are announced through the SGXNet, Information on HWT can also be found on the website [www.hyfluxwatertrust.com](http://www.hyfluxwatertrust.com).

The Management of the Trustee-Manager meets up with analysts, institutional investors and fund managers regularly throughout the year to communicate business performance and obtain views and feedback as part of our efforts to promote awareness of and build interest in HWT.

All unitholders, save investors who purchase units with Central Provident Fund monies, will receive the Annual Report and notices of general meetings. At general meetings, unitholders are entitled to participate in the question and answer sessions with the Board and vote on resolutions.

## CORPORATE GOVERNANCE STATEMENT (cont'd)

### E. ADDITIONAL INFORMATION

#### RISK MANAGEMENT AND COMPLIANCE COMMITTEE

The RMCC comprises a majority of independent directors as follows:

Simon Tay	(Chairman of RMCC, Independent Director)
Lai Chong Meng	(Independent Director)
Ivan Png	(Independent Director)
Sam Ong	(Non-Independent, Non-Executive Director)

The RMCC's responsibilities include, among other things:

- monitoring the procedures in place to ensure compliance with applicable laws and regulations, including the BTA, HWT Trust Deed, SGX-ST Listing Manual and Code of Corporate Governance 2005;
- reviewing the various risks, such as environmental, operational and business continuity risks that the Group is facing or may face; and
- reviewing regular updates from Management and the Company Secretary on compliance matters.

The Trustee-Manager also engages the services of and obtains advice from professional advisers and consultants from time to time in relation to matters such as acquisitions, capital raising and interested person transactions and complies with the relevant legislations.

#### DEALING IN SECURITIES

The Trustee-Manager has adopted its own internal compliance code based on SGX-ST Listing Manual best practices on dealings in securities. Directors and officers of the Trustee-Manager are advised not to deal in the units of HWT on short-term considerations or during the period commencing two weeks or one month before the announcement of HWT's quarterly or full year results respectively, or if they are in possession of material unpublished, price sensitive information of HWT. In addition, its directors and officers are expected to observe laws relating to insider trading at all times, declare all their dealings in the units of HWT and confirm annually that they have complied with the internal compliance code.

## CORPORATE GOVERNANCE STATEMENT (cont'd)

### INTERESTED PERSON TRANSACTIONS

On 4 September 2008, HWT obtained unitholders' approval for HWT, its subsidiaries and associated companies (the "Group") that are "entities at risk", as the term is used in Chapter 9 of the SGX-ST Listing Manual, or any of them, to enter into Interested Person Transactions ("IPTs") as described in the circular to unitholders dated 15 August 2008 ("IPT Mandate"). Such transactions, if entered into, are to follow the review procedures set out in the IPT Mandate. The IPT Mandate is in force until the next Annual General Meeting.

Given that such IPTs are expected to occur with some degree of frequency and may arise at any time and to allow the Group to undertake such transactions in an expeditious manner, unitholders' approval will be sought at the coming Annual General Meeting to renew the IPT Mandate.

For interested person transactions that are not conducted under the IPT Mandate, the Trustee-Manager adopts a review procedure similar in principle to that set out in the IPT Mandate, to ensure that all such transactions are conducted on normal commercial terms and are not prejudicial to the interests of HWT or its unitholders. The Trustee-Manager maintains registers to record all IPTs which are incorporated in the internal audit plan reported to and reviewed by the AC to ensure that these transactions comply with established internal procedures as well as the provisions of the SGX-ST Listing Manual and BTA. The IPTs are also reviewed by the internal auditors and the reports submitted to the AC on a semi-annual basis. The AC will review the internal audit reports to ascertain that the established review procedures to monitor IPTs are complied with.

During the reported financial period ended 31 December 2008, there were no material contracts that were not in the ordinary course of business, entered into by HWT and each of its subsidiaries involving the interests of the CEO, any director or controlling unitholder.

The breakdown of aggregate values of interested person transactions conducted both under and outside of the IPT Mandate, for the reported period is as follows:

Name of Interested Person	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than \$100,000 and transactions conducted under unitholders' mandate pursuant to Rule 920) (\$'000)	Aggregate value of all interested person transactions during the financial period under review conducted under unitholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000) (\$'000)
<b>Hyflux Ltd and its subsidiaries and associates:</b>		
• Engineering, Procurement and Construction	2,266	4,463
• Operations and Maintenance	989	–
• Project Development	222	–

## CORPORATE GOVERNANCE STATEMENT (cont'd)

### STATEMENT OF POLICIES AND PRACTICES

In accordance with BTA Section 87 and BTR Regulation 20, the Trustee-Manager has established the following policies and practices in relation to its management and governance of HWT:

- The property of HWT is properly accounted for and kept distinct from the property of the Trustee-Manager in its own capacity. Different bank accounts are maintained for the Trustee-Manager in its personal capacity and in its capacity as Trustee-Manager of HWT;
- The authorised businesses of HWT as set out in its Trust Deed include investing in, selling, leasing or otherwise disposing of water-related infrastructure assets that are engaged in water treatment, clarification, purification and/or distribution, or any business, undertaking or activity associated with the operation of such assets. The Board is required to approve all acquisitions and disposals of its water-related infrastructure assets. During the reported period, HWT acquired additional water-related infrastructure assets. The Trustee-Manager has not engaged in other businesses on behalf of HWT.
- The Trustee-Manager is not engaged in any business other than managing HWT. Any potential conflict that may arise will be identified and reviewed by the Board and Management. The majority of the Board members are independent directors, all of whom do not have any management or business relationships with the Sponsor of HWT, Hyflux Ltd, which allows them to objectively examine any potential conflict between the interest of the Trustee-Manager in its own capacity and the interest of the unitholders of HWT.
- The Trustee-Manager has established review and approval procedures to ensure that IPTs entered into by HWT are undertaken on normal commercial terms and are not prejudicial to the interests of HWT and its unitholders. The established procedures are also in accordance with the applicable requirements of the SGX-ST Listing Manual and BTA. Please also see the section above on IPTs in Section E – Additional Information.
- The expenses payable to the Trustee-Manager in its capacity as Trustee-Manager of HWT out of HWT property are reviewed regularly and the Board is satisfied that they are appropriate and in accordance with the Trust Deed.
- The responsibilities of the RMCC include, among other things, monitoring the procedures in place to ensure compliance with the applicable laws and regulations, including the BTA and SGX-ST Listing Manual. Please also see the section above on RMCC in Section E – Additional Information.

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## REPORT OF THE TRUSTEE-MANAGER OF HYFLUX WATER TRUST

The directors of Hyflux Water Trust Management Pte. Ltd., the Trustee-Manager of Hyflux Water Trust (the "Trust") and its subsidiaries (together referred to as the "Group"), are pleased to submit this annual report to the unitholders of the Trust, together with the audited financial statements for the financial period from 16 November 2007 (date of constitution) to 31 December 2008.

### DIRECTORS

The directors of the Trustee-Manager in office at the date of this report are as follows:

Lum Ooi Lin	(Appointed on 28 September 2007)
Chua Yong Hai	(Appointed on 3 October 2007)
Lai Chong Meng	(Appointed on 3 October 2007)
Png Paak Liang Ivan	(Appointed on 3 October 2007)
Tay Seong Chee Simon	(Appointed on 1 May 2008)
Ong Eng Keang	(Appointed on 2 October 2008)
Kee Eng Kwee Gary	(Appointed on 23 February 2009)

### DIRECTORS' INTERESTS

According to the register kept by the Trustee-Manager for the purposes of Section 76 of the Singapore Business Trusts Act, Chapter 31A (the "Act"), particulars of interests of directors who held office at the end of the financial period in units, debentures or unit options of the Trust are as follows:

	Direct Interest		Deemed Interest	
	As at date of appointment	As at 31.12.2008	As at date of appointment	As at 31.12.2008
Lum Ooi Lin	–	–	–	94,500,000
Chua Yong Hai	–	500,000	–	–
Lai Chong Meng	–	3,500,000	–	–
Png Paak Liang Ivan	–	190,000	–	–

Hyflux Water Projects Ltd (the "Sponsor SPV") is a wholly-owned subsidiary of Hyflux Ltd (the "Sponsor") and owns 94,500,000 units in the Trust. Ms Lum Ooi Lin is the beneficial holder of 33.78% of the issued share capital of the Sponsor as at 31 December 2008. By virtue of her interests in the Sponsor, Ms Lum is deemed under Section 4 of the Securities and Futures Act to be interested in all of the units held by the Sponsor SPV.

Neither at the end of, nor at any time during the financial period, was the Trustee-Manager a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Trustee-Manager to acquire benefits by means of the acquisition of units in or debentures of the Trust.

During the financial period, no director has received or become entitled to receive a benefit by reason of a contract made by the Trust or a related corporation with the director, or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the financial statements and in the corporate governance statement.

There were no changes in any of the above mentioned interest in the Trust between the end of the financial period and 21 January 2009.

## REPORT OF THE TRUSTEE-MANAGER OF HYFLUX WATER TRUST (cont'd)

### UNIT OPTIONS

During the financial period, there were:

- (i) no options granted by the Trustee-Manager to any person to take up unissued units in the Trust; and
- (ii) no units issued by virtue of any exercise of option to take up unissued units of the Trust.

As at the end of the financial period, there were no unissued units of the Trust under option.

### AUDIT COMMITTEE

The members of the Audit Committee during the financial period and as at the date of this report are:

Lai Chong Meng	(Chairman of Audit Committee, Independent Director)
Png Paak Liang Ivan	(Independent Director)
Tay Seong Chee Simon	(Independent Director)
Ong Eng Keang	(Non-Independent, Non-Executive Director)

The Audit Committee carried out its function in accordance with Regulation 13(6) of the Singapore Business Trusts Regulations and the SGX-ST Listing Manual.

The Audit Committee has held six meetings for the financial period ended 31 December 2008. In performing its functions, the Audit Committee met with the Trust's external and internal auditors to discuss the scope and results of their audit and evaluation of the Group's internal accounting control system.

The Audit Committee also reviewed the following:

- assistance provided by the Trustee-Manager's officers to the internal and external auditors;
- quarterly financial information and annual financial statements of the Group and the Trust prior to their submission to the Board of Directors of the Trustee-Manager; and
- interested person transactions, hedging policies and internal policies and procedures.

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer of the Trustee-Manager to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors, the nomination of Messrs KPMG LLP for re-appointment as auditors of the Trust at the forthcoming Annual General Meeting of the unitholders.

## **REPORT OF THE TRUSTEE-MANAGER OF HYFLUX WATER TRUST (cont'd)**

### **AUDITORS**

The auditors, KPMG LLP, have expressed their willingness to accept appointment.

For and on behalf of the Board of Directors of the Trustee-Manager

**Chua Yong Hai**

Director

**Kee Eng Kwee Gary**

Director

**Singapore**

6 March 2009

## STATEMENT BY THE TRUSTEE-MANAGER

In our opinion:

- (a) the financial statements set out on pages 44 to 83 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Trust as at 31 December 2008 and the results, changes in unitholders' funds and cash flows of the Group for the period ended on that date in accordance with the provisions of the Singapore Business Trusts Act, Chapter 31A and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they fall due.

With respect to the income statement of the Group for the period ended 31 December 2008:

- fees or charges paid or payable out of the trust property to the Trustee-Manager are in accordance with the Trust Deed dated 16 November 2007;
- interested person transactions are not detrimental to the interests of all the unitholders as a whole based on the circumstances at the time of the transaction; and
- the Board is not aware of any violation of duties of the Trustee-Manager which would have a materially adverse effect on the business of the Trust or on the interests of all the unitholders as a whole.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

For and on behalf of the Board of Directors of the Trustee-Manager

**Chua Yong Hai**

Director

**Kee Eng Kwee Gary**

Director

**Singapore**

6 March 2009

## **STATEMENT BY THE CHIEF EXECUTIVE OFFICER**

In accordance with Section 86 of the Singapore Business Trusts Act, Chapter 31A, I certify that I am not aware of any violation of duties of the Trustee-Manager which would have a materially adverse effect on the business of the Trust or on the interests of all the unitholders of the Trust as a whole.

**Kee Eng Kwee Gary**  
Chief Executive Officer

**Singapore**  
6 March 2009

## **INDEPENDENT AUDITORS' REPORT**

Unitholders of Hyflux Water Trust

We have audited the financial statements of Hyflux Water Trust (the "Trust") (constituted in the Republic of Singapore pursuant to a Trust Deed dated 16 November 2007 (the "Trust Deed")) and its subsidiaries (the "Group"), which comprise the balance sheets of the Group and the Trust as at 31 December 2008, the income statement, statement of movements in unitholders' funds and cash flow statement of the Group for the period from 16 November 2007 (date of constitution) to 31 December 2008, and a summary of significant accounting policies and other explanatory notes, as set out on pages 44 to 83.

### **TRUSTEE-MANAGER'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS**

The Trustee-Manager is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Business Trusts Act, Chapter 31A of Singapore (the Act) and Singapore Financial Reporting Standards. This responsibility includes:

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

### **AUDITORS' RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustee-Manager, as well as evaluating the overall presentation of the financial statements.

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

## **INDEPENDENT AUDITORS' REPORT** (cont'd)

### **OPINION**

In our opinion:

- (a) the consolidated financial statements of the Group and the balance sheet of the Trust 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 Trust as at 31 December 2008 and the results, changes in unitholders' funds and cash flows of the Group for the period from 16 November 2007 (date of constitution) to 31 December 2008; and
- (b) the accounting and other records required by the Act to be kept by the Trust have been properly kept in accordance with the provisions of the Act.

### **KPMG LLP**

Public Accountants and Certified Public Accountants

### **Singapore**

6 March 2009

**BALANCE SHEETS**

As at 31 December 2008

	Note	Group \$'000	Trust \$'000
<b>Non-current assets</b>			
Intangible assets	3	129,058	–
Subsidiaries	4	–	64,522
Financial receivables	5	145,335	–
Trade and other receivables	6	1,289	209,361
Lease prepayments	7	15,258	–
		290,940	273,883
<b>Current assets</b>			
Financial receivables	5	3,456	–
Trade and other receivables	6	26,215	552
Derivative financial instruments		563	563
Cash and cash equivalents	8	35,570	13,583
		65,804	14,698
<b>Total assets</b>		356,744	288,581
<b>Non-current liabilities</b>			
Deferred tax liabilities	9	16,711	–
Trade and other payables	10	243	–
Financial liabilities	11	58,159	58,159
		75,113	58,159
<b>Current liabilities</b>			
Trade and other payables	10	41,154	6,420
<b>Total liabilities</b>		116,267	64,579
<b>Net assets attributable to unitholders</b>		240,477	224,002
<b>Unitholders' funds</b>			
Units in issue	12	234,000	234,000
Issue costs	13	(12,247)	(12,247)
Foreign currency translation reserve	14	11,699	–
Hedging reserve	15	529	529
Statutory reserve	16	325	–
Accumulated profits		6,171	1,720
		240,477	224,002
		<b>\$</b>	<b>\$</b>
<b>Net asset value per unit</b>	17	0.80	0.75

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

**CONSOLIDATED INCOME STATEMENT**

Period from 16 November 2007 (date of constitution) to 31 December 2008

	Note	Group 16/11/2007 to 31/12/2008 \$'000
Operating and maintenance income		9,910
Finance income		4,793
Construction revenue		41,931
<b>Total revenue</b>		<u>56,634</u>
<b>Operating expenses</b>		
Construction expense		(41,931)
Electricity costs		(2,267)
Manpower costs		(828)
Operation and maintenance fees:		
– Chemical costs		(252)
– Maintenance costs		(369)
– Sludge treatment fee		(536)
Management services fee		(217)
Amortisation		(1,626)
Other expenses		(818)
<b>Total operating expenses</b>		<u>(48,844)</u>
<b>Net operating income</b>		7,790
Trustee-Manager's management fee		(557)
Other trust expenses	18	(595)
Other income	19	4,233
<b>Results from operating activities</b>		<u>10,871</u>
Other finance income		397
Other finance expense		(612)
<b>Net finance costs</b>	20	<u>(215)</u>
<b>Profit before income tax</b>		10,656
Income tax credit	21	299
<b>Profit for the period</b>		<u>10,955</u>
<b>Income available for distribution</b>	22	<u>10,192</u>
<b>Earnings per unit (cents)</b>	23	
Basic		3.65
Diluted		<u>3.65</u>

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

**CONSOLIDATED STATEMENT OF MOVEMENTS IN UNITHOLDERS' FUNDS**

Period from 16 November 2007 (date of constitution) to 31 December 2008

Group	Units in issue \$'000	Issue costs \$'000	Foreign currency translation reserve \$'000	Hedging reserve \$'000	Statutory reserve \$'000	Accumulated profits \$'000	Total \$'000
On 16 November 2007 (date of constitution)	-	-	-	-	-	-	-
Proceeds from units issued	234,000	-	-	-	-	-	234,000
Units issue costs (Note 13)	-	(12,247)	-	-	-	-	(12,247)
Translation differences relating to foreign subsidiaries	-	-	11,699	-	-	-	11,699
Effective portion of changes in fair value of cash flow hedge	-	-	-	529	-	-	529
Net gain recognised directly in net assets attributable to unitholders	-	-	11,699	529	-	-	12,228
Profit for the period	-	-	-	-	-	10,955	10,955
Total recognised income and expenses for the period	-	-	11,699	529	-	10,955	23,183
Distributions to unitholders	-	-	-	-	-	(4,459)	(4,459)
Transfers	-	-	-	-	325	(325)	-
At 31 December 2008	234,000	(12,247)	11,699	529	325	6,171	240,477

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

**CONSOLIDATED CASH FLOW STATEMENT**

Period from 16 November 2007 (date of constitution) to 31 December 2008

	Note	Group \$'000
<b>Operating activities</b>		
Profit before income tax		10,656
Adjustments for:		
Amortisation		1,626
Construction revenue		(41,931)
Negative goodwill on acquisition of subsidiaries		(1,541)
Net finance costs		215
Foreign exchange gain		(2,519)
Operating loss before working capital changes		(33,494)
Changes in working capital:		
Trade and other receivables		(15,646)
Trade and other payables		(9,078)
<b>Cash used in operating activities</b>		(58,218)
Tax paid		(211)
<b>Cash flows used in operating activities</b>		(58,429)
<b>Investing activities</b>		
Acquisition of subsidiaries, net of cash acquired	24	(183,119)
Interest received		397
<b>Cash flows used in investing activities</b>		(182,722)
<b>Financing activities</b>		
Distribution to unitholders		(4,459)
Proceeds from interest-bearing borrowings		59,102
Finance costs paid		(229)
Payment of issue costs		(12,247)
Proceeds from units issued		234,000
<b>Cash flows from financing activities</b>		276,167
<b>Net increase in cash and cash equivalents</b>		35,016
<b>Cash and cash equivalents at beginning of the period</b>		–
<b>Effect of exchange rate fluctuations</b>		554
<b>Cash and cash equivalents at end of the period</b>	8	35,570

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

## NOTES TO THE FINANCIAL STATEMENTS

Period from 16 November 2007 (date of constitution) to 31 December 2008

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Trustee-Manager on 6 March 2009.

### 1 DOMICILE AND ACTIVITIES

Hyflux Water Trust ("the Trust") is a Singapore-domiciled business trust established pursuant to the Trust Deed dated 16 November 2007 (the "Trust Deed") with Hyflux Water Trust Management Pte. Ltd. (the "Trustee-Manager"). The Trust Deed is governed by the laws of the Republic of Singapore. The Trustee-Manager is under a duty to take into custody and hold the assets of the Trust in trust for the unitholders.

The Trust was formally admitted to the Official List of the Singapore Exchange Securities Trading Limited ("SGX-ST") on 3 December 2007.

The principal activity of the Trust is investment holding. The principal activities of the subsidiaries are those relating to investment in, either directly or indirectly, water-related infrastructure assets, including water treatment plants ("WTP"), wastewater treatment plants ("WWTP") and water recycling plants ("WRP").

The consolidated financial statements relate to the Trust and its subsidiaries (together referred to as the "Group").

The Trust Deed provides the following fees payable to the Trustee-Manager:

#### **Management Fee**

The Trustee-Manager is entitled to receive a management fee based on the adjusted earnings before interest, tax, depreciation and amortisation per unit ("Adjusted EBITDA per Unit" as defined in the Trust Deed) of the Trust, which directly reflects the operating performance of the Trust's portfolio of assets. The management fee is calculated based on a tiered structure in accordance with the following formula:

- (a) if the Adjusted EBITDA per Unit is more than S\$0 but equal to or less than S\$0.0750, the management fee will be 5% of the Adjusted EBITDA per Unit, multiplied by the number of Units in issue as at the end of each period ("Semi-Annual Period") ending on 30 June and 31 December;
- b) if the Adjusted EBITDA per Unit is more than S\$0.0750 but equal to or less than S\$0.1000, the management fee will be the sum of: (i) 5% of the Adjusted EBITDA per Unit (up to and including S\$0.0750); and (ii) 10% of the amount by which the Adjusted EBITDA per Unit exceeds S\$0.0750 (but up to and including S\$0.1000), multiplied by the number of Units in issue as at the end of the relevant Semi-Annual Period;
- (c) if the Adjusted EBITDA per Unit is more than S\$0.1000 but equal to or less than S\$0.1250, the management fee will be the sum of: (i) 5% of the Adjusted EBITDA per Unit (up to and including S\$0.0750); (ii) 10% of the amount by which the Adjusted EBITDA per Unit exceeds S\$0.0750 (but up to and including S\$0.1000); and (iii) 15% of the amount by which the Adjusted EBITDA per Unit exceeds S\$0.1000 (but up to and including S\$0.1250), multiplied by the number of Units in issue as at the end of the relevant Semi-Annual Period;

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**1 DOMICILE AND ACTIVITIES (cont'd)****Management Fee (cont'd)**

- (d) if the Adjusted EBITDA per Unit is more than S\$0.1250 but equal to or less than S\$0.1500, the management fee will be the sum of: (i) 5% of the Adjusted EBITDA per Unit (up to and including S\$0.0750); (ii) 10% of the amount by which the Adjusted EBITDA per Unit exceeds S\$0.0750 (but up to and including S\$0.1000); (iii) 15% of the amount by which the Adjusted EBITDA per Unit exceeds S\$0.1000 (but up to and including S\$0.1250); and (iv) 22.5% of the amount by which the Adjusted EBITDA per Unit exceeds S\$0.1250 (but up to and including S\$0.1500), multiplied by the number of Units in issue as at the end of the relevant Semi-Annual Period;
- (e) if the Adjusted EBITDA per Unit is more than S\$0.1500, the Management fee will be the sum of: (i) 5% of the Adjusted EBITDA per Unit (up to and including S\$0.0750); (ii) 10% of the amount by which the Adjusted EBITDA per Unit exceeds S\$0.0750 (but up to and including S\$0.1000); (iii) 15% of the amount by which the Adjusted EBITDA per Unit exceeds S\$0.1000 (but up to and including S\$0.1250); (iv) 22.5% of the amount by which the Adjusted EBITDA per Unit exceeds S\$0.1250 (but up to and including S\$0.1500); and 30% of the amount by which the Adjusted EBITDA per Unit exceeds S\$0.1500, multiplied by the number of Units in issue as at the end of the relevant Semi-Annual Period.

The Trustee-Manager may elect to receive all or any part of the management fee in units instead of cash.

Any change in the structure of the management fee must be approved by an extraordinary resolution of a meeting of unitholders duly convened and held in accordance with the provisions of the Trust Deed.

**Other fees**

Pursuant to the Trust Deed, the Trustee-Manager is entitled to the following:

- An acquisition fee amounting to 0.75% (or such lower percentage as may be determined by the Trustee-Manager in its absolute discretion) of the Enterprise Value (as defined in the Trust Deed) of investments where Hyflux Ltd (the "Sponsor") has direct or indirect interests of more than 50% in any investments acquired directly or indirectly by the Trust. For other investments, the Trustee-Manager is entitled to an acquisition fee amounting to 1.25% (or such lower percentage as may be determined by the Trustee-Manager in its absolute discretion) of the Enterprise Value of these investments acquired directly or indirectly by the Trust.
- No acquisition fee is payable on the acquisition (whether directly or indirectly) of the initial portfolio of plants.
- A divestment fee amounting to 0.50% (or such lower percentage as may be determined by the Trustee-Manager in its absolute discretion) of the Enterprise Value of any investments sold or divested directly or indirectly by the Trust.
- In the case of an acquisition or divestment of an equity share or interest of less than 100%, the above definition of Enterprise Value will be applied proportionately to both Equity and Net Debt (as defined in the Trust Deed).

The Trustee-Manager may elect to receive all or any part of the acquisition fee and divestment fee in units instead of cash.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards ("FRS"). The Group has early adopted Interpretation of Financial Reporting Standard ("INT FRS") 112 *Service Concession Arrangements*, which is effective for periods beginning on or after 1 January 2008.

The financial statements have been prepared on the historical cost basis, except as disclosed in the accounting policies below.

The financial statements are presented in Singapore dollars, which is the Trust's functional currency. All financial information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

#### **Early adoption of INT FRS 112 *Service Concession Arrangements***

INT FRS 112 requires the recognition of construction revenue and the corresponding financial receivable and/or intangible asset for public-to-private service concession arrangement if:

- the party that grants the service arrangement (the "grantor") controls or regulates what services the entity (the "operator") must provide with the infrastructure asset, to whom it must provide them, and at what price; and
- the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure asset at the end of the term of the arrangement.

The subsidiaries of the Group have entered into concession arrangements with the various governing bodies or agencies of the government of the People's Republic of China (the "grantors") to supply treated water from WTPs, and operate WWTPs and WRPs. Under the concession arrangements, the Group will construct and/or operate the plants for concession periods of between 20 to 30 years and transfer the plants to the grantors at the end of the concession periods. Such concession arrangements fall within the scope of INT FRS 112. Under INT FRS 112, the revenue for the construction services provided under the arrangements and the corresponding financial receivables and/or intangible assets arising are recognised based on the percentage of completion method during the construction phase.

##### (i) Recognition of financial receivables

The Group recognises a financial receivable if it has a contractual right under the concession agreements to receive a fixed and determinable amount of payments during the concession period irrespective of the usage of the plants. The financial receivable is measured on initial recognition at its fair value.

Subsequent to initial recognition, the financial receivable is measured at amortised cost using the effective interest method.

When the Group receives a payment during the concession period, it will apportion such payment between (i) a repayment of the financial receivable (if any), which will be used to reduce the carrying amount of the financial receivable on its balance sheet, (ii) interest income, which will be recognised as finance income in its income statement and (iii) revenue from operating and maintaining the plants in its income statement.

Judgement is also exercised in determining the fair value of the financial receivables. Discount rates, estimates of future cash flows and other factors are used in the valuation process. The assumptions used and estimates made can materially affect the fair value estimates.

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)**2.1 BASIS OF PREPARATION** (cont'd)

## (ii) Recognition of intangible assets

The Group recognises an intangible asset if it does not have any contractual right under the concession agreements to receive a fixed and determinable amount of payments during the service concession period. The intangible asset is recognised to the extent that the Group has a right to charge fees for the usage of the plants and is amortised over the concession period from commencement of the operations of the plants.

The preparation of financial statements in conformity with FRS requires the Trustee-Manager to make judgements, estimates and assumptions that affect the application of 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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is included in the following notes:

- Note 3 - assumptions of recoverable amounts relating to goodwill impairment
- Note 24 - valuation of assets, liabilities and contingent liabilities acquired in business combinations
- Note 25 - valuation of financial instruments

The accounting policies used by the Group have been applied consistently to all periods presented in the financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

### **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

#### **2.2 CONSOLIDATION**

##### **Business combinations**

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

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 is credited to the income statement in the period of the acquisition.

##### **Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated balance sheet from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

##### **Transactions eliminated on consolidation**

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

##### **Accounting for subsidiaries by the Trust**

Investments in subsidiaries are stated in the Trust's balance sheet at cost less accumulated impairment losses.

#### **2.3 FOREIGN CURRENCIES**

##### **Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the reporting date. 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 on which the fair value was determined.

Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of monetary items that in substance form part of the Group's net investment in a foreign operation (see below).

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.3 FOREIGN CURRENCIES (cont'd)

##### Foreign operations

The assets and liabilities of foreign operations are translated to Singapore dollars at exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to Singapore dollars at exchange rates prevailing at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Foreign currency differences are recognised in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the income statement.

##### Net investment in a foreign operation

Exchange differences arising from monetary items that in substance form part of the Trust's net investment in a foreign operation are recognised in the Trust's income statement. Such exchange differences are reclassified to unitholders' funds in the consolidated financial statements. When the foreign operation is disposed of, the cumulative amount in unitholders' funds is transferred to the income statement as an adjustment to the profit or loss arising on disposal.

#### 2.4 LEASE PREPAYMENTS

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 20 to 30 years.

#### 2.5 INTANGIBLE ASSETS

##### Goodwill

Goodwill and negative goodwill arise on the acquisition of subsidiaries. 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 is presented in intangible assets.

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment as described in note 2.7. Negative goodwill is recognised immediately in the income statement.

##### Concession rights

Concession rights are stated at cost less accumulated amortisation and impairment losses. Concession rights are amortised in the income statement on a straight-line basis over the concession periods (defined as the period stipulated in the concession agreement between a subsidiary/special purpose company and an administrative authority for which the subsidiary/special purpose company is granted the right to own and operate the plant) ranging from 20 years to 30 years.

## **NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

### **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

#### **2.6 FINANCIAL INSTRUMENTS**

##### **Non-derivative financial instruments**

Non-derivative financial instruments comprise financial receivables, trade and other receivables, cash and cash equivalents, trade and other payables and financial liabilities.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, that is, the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and bank deposits.

##### **Derivative financial instruments and hedging activities**

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

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

##### **Cash flow hedges**

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in unitholders' funds to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in unitholders' funds remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in unitholders' funds is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in unitholders' funds is transferred to the income statement in the same period that the hedged item affects profit or loss.

##### **Other non-trading derivatives**

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

### 2.6 FINANCIAL INSTRUMENTS (cont'd)

#### Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. An impairment loss is reversed if the subsequent increase in fair value can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the income statement.

### 2.7 IMPAIRMENT – NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. For goodwill, the recoverable amount is estimated at each reporting date, and as and when indicators of impairment are identified.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement unless it reverses a previous revaluation, credited to unitholders' funds, in which case it is charged to unitholders' funds. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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 or cash-generating unit.

An impairment loss in respect of goodwill is not reversed, even if it relates to an impairment loss recognised on goodwill in an interim period that would have been reduced or avoided had the impairment assessment been made at a subsequent reporting or balance sheet date. 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.

## **NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

### **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

#### **2.8 UNITS IN ISSUE**

Units in issue are classified as equity in the unitholders' funds.

Units issue costs represent expenses incurred in connection with the issue of units. All such expenses are deducted directly from unitholders' funds.

#### **2.9 REVENUE RECOGNITION**

##### **Construction revenue**

As soon as the outcome of a construction contract can be estimated reliably, construction revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. Construction 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.

The stage of completion is assessed by reference to the work performed, based on the ratio of construction costs incurred for work performed to-date to the estimated total construction costs. When the outcome of a construction contract cannot be estimated reliably, construction revenue is recognised only to the extent of construction costs incurred that are likely to be recoverable. An expected loss on a construction contract is recognised immediately in the income statement.

##### **Operating and maintenance income**

Revenue derived from the provision of operating and maintenance services is recognised upon rendering of services.

##### **Finance income**

Finance income represents the interest income on the financial receivable recognised in respect of the construction services in accordance with INT FRS 112. Finance income is recognised in the income statement using the effective interest method.

#### **2.10 OTHER FINANCE INCOME AND EXPENSE**

Other finance income comprises interest income on bank deposits. Interest income is recognised as it accrues, using the effective interest method.

Other finance expense comprises interest expense on borrowings and amortisation of transaction costs on loan facility. All borrowing costs are recognised in the income statement using the effective interest method.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.11 INCOME TAX EXPENSE

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in unitholders' funds, in which case it is recognised in unitholders' funds.

Current tax is the expected tax payable on the taxable income 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 using the balance sheet method, providing for 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 goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the 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 to the extent that it is probable that future taxable profits will be available against which temporary differences 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.

The Trust is exempted from Singapore income tax under Section 13(12) of the Income Tax Act on the following sources of income:

- (a) foreign-sourced dividends received/receivable in Singapore; and
- (b) foreign-sourced interest income received/receivable in Singapore

by the Trust from its subsidiaries and which originate from underlying profits derived from carrying out water purification and treatment businesses in the People's Republic of China ("PRC").

This exemption is granted subject to certain conditions, including the condition that the Trustee-Manager is a tax resident of Singapore for the year of assessment relating to the basis period during which the foreign-sourced income is received in Singapore.

The tax exemption also applies to dividends payable by these subsidiaries out of gains, if any, derived from the disposal of their shares in their subsidiaries in the PRC.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.12 SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

No business segment information has been presented as the Trustee-Manager is of the view that all of the Group's operations relate to water treatment business. No geographical segment has been presented as all the Group's operations are in the PRC.

### 3 INTANGIBLE ASSETS

Group	Goodwill on consolidation \$'000	Concession rights \$'000	Total \$'000
<b>Cost</b>			
At 16 November 2007 (date of constitution)	–	–	–
Acquisitions through business combinations	15,465	83,183	98,648
Additions	–	24,628	24,628
Exchange differences	1,069	5,998	7,067
At 31 December 2008	<u>16,534</u>	<u>113,809</u>	<u>130,343</u>
<b>Accumulated amortisation</b>			
At 16 November 2007 (date of constitution)	–	–	–
Amortisation charge for the period	–	(1,232)	(1,232)
Exchange differences	–	(53)	(53)
At 31 December 2008	<u>–</u>	<u>(1,285)</u>	<u>(1,285)</u>
<b>Carrying amount</b>			
At 31 December 2008	<u>16,534</u>	<u>112,524</u>	<u>129,058</u>

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**3 INTANGIBLE ASSETS (cont'd)****Impairment testing for cash-generating units ("CGU") containing goodwill**

Goodwill is allocated to water-related infrastructure assets.

The aggregate carrying amount of goodwill allocated to each unit are as follows:

	<b>Group \$'000</b>
Water-related infrastructure assets	16,534

The recoverable amount is determined based on value-in-use calculation using discounted cashflow projections 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 twenty to thirty 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 18.0% was applied in determining the recoverable amount of the units. The discount rate used reflects the current market assessment of the time value of money and the risks specific to the CGU.

The values assigned to the key assumptions represent management's assessment of future trends in the water industry and are based on both external and internal sources.

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

**4 SUBSIDIARIES**

	<b>Trust \$'000</b>
Equity investments, at cost	<u>64,522</u>

Non-audit fees paid to auditors of the Trust amounting to \$202,000 mainly for acting as independent reporting accountants with respect to the acquisition exercise on 23 December 2008 were capitalised in equity investments.

Details of the subsidiaries are as follows:

<b>Name of subsidiaries</b>	<b>Country of incorporation</b>	<b>Effective equity held by the Group %</b>
<b>Held by the Trust</b>		
*1 Hyflux Utility Ltd.	British Virgin islands	100
**2 Hyflux Utility WWT (MG) Limited	Hong Kong	100
**1 Hyflux Utility WTP (GY) Limited	Hong Kong	100
**2 Hyflux Utility (WX) Limited	Hong Kong	100
<b>Held by subsidiary, Hyflux Utility Ltd.</b>		
*3 Hyflux NewSpring (Changshu) Co., Ltd	People's Republic of China	100
*4 Hyflux NewSpring (Taizhou) Co., Ltd	People's Republic of China	100
*5 Hyflux NewSpring (Wuxi) Co., Ltd	People's Republic of China	100
*6 Hyflux NewSpring (Tiantai) Co., Ltd	People's Republic of China	100
*7 Langfang Hyflux NewSpring Co., Ltd	People's Republic of China	100
*8 Hyflux NewSpring (Nantong) Co., Ltd	People's Republic of China	100
*9 Hyflux NewSpring (Liaoyang) Co., Ltd	People's Republic of China	100
*10 Hyflux NewSpring (Yangzhou) Co., Ltd	People's Republic of China	100
*11 Hyflux NewSpring (Dafeng) Co., Ltd	People's Republic of China	100
*12 Hyflux NewSpring (Tianjin) Co., Ltd	People's Republic of China	100
*13 Hyflux NewSpring (Zunhua) Co., Ltd	People's Republic of China	100
<b>Held by subsidiary, Hyflux Utility WWT (MG) Limited</b>		
**14 Hyflux Newspring Waste Water Treatment (Mingguang) Co., Ltd	People's Republic of China	100
<b>Held by subsidiary, Hyflux Utility WTP (GY) Limited</b>		
**15 Hyflux Newspring (Guanyun) Co., Ltd	People's Republic of China	100
<b>Held by subsidiary, Hyflux Utility (WX) Limited</b>		
**5 Hyflux Newspring Sewage Disposal (Wuxi) Co., Ltd	People's Republic of China	100

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**4 SUBSIDIARIES (cont'd)**

KPMG Singapore is the auditor of the Trust. The auditors of the subsidiaries are as follows:

- 1 Statutory audit is not required
- 2 Alliot, Tsoi CPA Limited
- 3 Jiangsu Xinrui Certified Public Accountants
- 4 Taizhou Xingrui Certified Public Accountants
- 5 Jiangsu Tianheng Certified Public Accountants
- 6 Tiantai Tianxin Certified Public Accountants Co., Ltd
- 7 Langfang Hua An Da Certified Public Accountants
- 8 Rudong Xinrui Certified Public Accountants Ltd.
- 9 Liaoyang Zhicheng Certified Public Accountants
- 10 Yangzhou Xinyang Certified Public Accountants Co., Ltd
- 11 Yancheng Zhong Bo Hua Associate Certified Public Accountants
- 12 Tianjin Zhong Xing Cai Certified Public Accountants
- 13 Tianhwa Tangshen Certified Public Accountants
- 14 Lai An Shou Xin Certified Public Accountants
- 15 Lianyungang Zhengze Certified Public Accountants General Partnership

\* The subsidiaries were acquired on 3 December 2007. The effective interest acquired was 100%.

\*\* The subsidiaries were acquired on 23 December 2008. The effective interest acquired was 100%.

**5 FINANCIAL RECEIVABLES**

Financial receivables relate to receivables recognised in respect of construction services provided in accordance with INT FRS 112 as described in Note 2.1.

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

**6 TRADE AND OTHER RECEIVABLES**

	<b>Group \$'000</b>	<b>Trust \$'000</b>
Trade receivables	8,273	–
Deposits	1,451	–
Prepayments	302	–
Other receivables	2,381	552
Loans to subsidiaries	–	209,361
Amounts due from related corporations (non-trade)	15,097	–
	<u>27,504</u>	<u>209,913</u>
Receivable:		
– Within 12 months	26,215	552
– After 12 months	1,289	209,361
	<u>27,504</u>	<u>209,913</u>

Loans to subsidiaries are unsecured and bear interest at 3-month USD LIBOR plus margin ranging from 2% to 4%. Amounts due from related corporations are unsecured, interest-free and repayable on demand. There is no allowance for doubtful debts arising from the outstanding balances.

Concentration of credit risk relating to trade receivables is limited due to the Group's many varied customers. These customers are mainly governing bodies and agencies of the government of the PRC.

**Impairment losses**

The ageing of trade receivables at the reporting date is:

<b>Group</b>	<b>Gross \$'000</b>	<b>Impairment losses \$'000</b>
Not past due	2,396	–
Past due 0 – 30 days	1,930	–
Past due 31 – 180 days	3,752	–
More than 180 days	195	–
	<u>8,273</u>	<u>–</u>

The Group believes that no impairment allowance is necessary in respect of trade receivables as at the balance sheet date. These receivables mainly arise from customers with good credit records with the Group.

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

**7 LEASE PREPAYMENTS**

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 20 to 30 years.

**8 CASH AND CASH EQUIVALENTS**

	<b>Group \$'000</b>	<b>Trust \$'000</b>
Cash at bank	23,721	2,165
Fixed deposits with financial institutions	11,849	11,418
	<u>35,570</u>	<u>13,583</u>

The weighted average effective interest rates relating to fixed deposits at the balance sheet date for the Group and the Trust are 0.15% and 0.15% per annum, respectively.

Interest rates reprice daily or at one-month intervals.

Included in cash and cash equivalents is an amount of \$10,453,000 which relates to part of the proceeds from the initial public offering which will be used to fund the construction of certain plants.

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

**9 DEFERRED TAX LIABILITIES**

Movements in deferred tax assets and liabilities of the Group (prior to offsetting of balances) during the period are as follows:

	At 16 November 2007 \$'000	Acquisition of subsidiaries \$'000	Recognised in income statement (Note 21) \$'000	Exchange differences \$'000	At 31 December 2008 \$'000
<b>Deferred tax assets</b>					
Unutilised tax losses	–	123	256	20	399
<b>Deferred tax liabilities</b>					
Concession rights	–	(16,408)	308	(1,010)	(17,110)
Total	–	(16,285)	564	(990)	(16,711)

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The amounts determined after appropriate offsetting are included in the balance sheets as follows:

	Group \$'000	Trust \$'000
Deferred tax liabilities	(16,711)	–

Deferred tax assets have not been recognised in respect of the following item:

	Group \$'000	Trust \$'000
Tax losses	228	–
	228	–

The tax losses are subject to agreement by the tax authorities and compliance with tax regulations in the country in which the subsidiaries operate. Deferred tax assets have not been recognised in respect of the item because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**10 TRADE AND OTHER PAYABLES**

	<b>Group \$'000</b>	<b>Trust \$'000</b>
Trade payables	6,454	–
Other payables	1,664	916
Accrued expenses	8,287	4,829
Amounts due to subsidiaries (non-trade)	–	352
Amounts due to related corporations (trade)	20,710	–
Amounts due to related corporations (non-trade)	4,282	323
	<u>41,397</u>	<u>6,420</u>
Payable:		
– Within 12 months	41,154	6,420
– After 12 months	243	–
	<u>41,397</u>	<u>6,420</u>

Amounts due to related corporations included an amount of \$277,000 at the Group and the Trust, which is due and payable to the Trustee-Manager.

Outstanding balances with related corporations are unsecured.

**11 FINANCIAL LIABILITIES**

	<b>Group \$'000</b>	<b>Trust \$'000</b>
<b>Non-current</b>		
Secured bank loans	59,102	59,102
Less: Transaction costs in relation to credit facility	(943)	(943)
	<u>58,159</u>	<u>58,159</u>

The bank loans are secured by share mortgages of all the shares of the subsidiaries acquired during the period, incorporated or formed to hold or own the China subsidiaries.

Under the terms of the revolving credit facility, amounts repaid prior to final maturity date may be re-borrowed and all amounts outstanding must be repaid on the final maturity date.

The secured bank loans are repayable in full on 28 February 2011.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**11 FINANCIAL LIABILITIES (cont'd)****Terms and debt repayment schedule**

Terms and conditions of outstanding bank loans are as follows:

2008	Nominal interest rate %	Year of maturity	Face value \$'000	Carrying amount \$'000
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**Group and Trust**

Financial liabilities	6-month SOR + margin*	2011	59,102	58,159
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\* 1.98% per annum for 12 months after December 2008 and 0.98% per annum there after.

The following are the expected contractual undiscounted cash inflows/(outflows) of financial assets and liabilities, including interest payments and excluding the impact of netting agreements:

Group	Carrying amount \$'000	Contractual cash flows \$'000	Cash flows		
			Within 1 year \$'000	Within 2 to 5 years \$'000	More than 5 years \$'000
<b>Non-derivative financial liabilities</b>					
Variable interest rate loans	58,159	(63,444)	(2,129)	(61,315)	-
Trade and other payables *	33,110	(33,110)	(32,867)	-	(243)
<b>Derivative financial assets</b>					
Interest rate swaps used for hedging	(529)	566	566	-	-
Forward foreign exchange contracts used	(34)	34	34	-	-
	90,706	(95,954)	(34,396)	(61,315)	(243)

\* Excludes accrued expenses

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

**11 FINANCIAL LIABILITIES** (cont'd)**Terms and debt repayment schedule** (cont'd)

Trust	Carrying amount \$'000	Contractual cash flows \$'000	Cash flows		
			Within 1 year \$'000	Within 2 to 5 years \$'000	More than 5 years \$'000
<b>Non-derivative financial liabilities</b>					
Variable interest rate loans	58,159	(63,444)	(2,129)	(61,315)	–
Trade and other payables *	1,591	(1,591)	(1,591)	–	–
<b>Derivative financial assets</b>					
Interest rate swaps used for hedging	(529)	566	566	–	–
Forward foreign exchange contracts used	(34)	34	34	–	–
	59,187	(64,435)	(3,120)	(61,315)	–

\* Excludes accrued expenses

The following table indicates the periods in which the cash flow associated with derivatives that are cash flow hedges are expected to impact the income statement:

Group and Trust	Carrying amount \$'000	Contractual cash flows \$'000	Cash flows		
			Within 1 year \$'000	Within 2 to 5 years \$'000	More than 5 years \$'000
Interest rate swaps					
– assets	529	566	566	–	–

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

**12 UNITS IN ISSUE**

**Group and Trust  
Number of units  
'000**

**Fully paid units:**

At 16 November 2007 (date of constitution)	–
Issue of units:	
– Initial public offering	300,000
At 31 December 2008	300,000

Each unit in the Trust represents an undivided interest in the Trust. The rights and interests of Unitholders are contained in the Trust Deed and include the right to:

- Receive income and other distributions attributable to the units held;
- Participate in the termination of the Trust by receiving a share of all net cash proceeds derived from the realisation of the assets of the Trust less any liabilities, in accordance with their proportionate interests in the Trust; and
- Receive audited accounts and the annual reports of the Trust.

The restrictions of a Unitholder include the following:

- a Unitholder has no right to request the Trustee-Manager to transfer to him any asset of the Trust;
- a Unitholder cannot give any directions to the Trustee-Manager (whether at a meeting of Unitholders or otherwise) if it would require the Trustee-Manager to do or omit doing anything which may result in;
- the Trust ceasing to comply with applicable laws and regulations; or
- the exercise of any discretion expressly conferred to the Trustee-Manager by the Trust Deed.

A Unitholder's liability is limited to the amount paid or payable for any units in the Trust. The provisions of the Trust Deed provide that no Unitholders will be personally liable to indemnify the Trustee-Manager or any creditor of the Trustee-Manager in the event the liabilities of the Trust exceed its assets.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**12 UNITS IN ISSUE (cont'd)****Capital management policy**

The Trustee-Manager aims to fund the growth of the Trust through a combination of debt and equity with the objective of minimising the overall cost of capital of the Trust.

The Trustee-Manager's objective in relation to capital management is to maintain a prudent financial leverage with a debt to asset (excluding goodwill) ratio of no greater than 60%, although there may be deviations from this in the short term arising from timing differences in equity and debt capital raising for new acquisitions.

The Trustee-Manager intends to diversify its sources of debt funding, and may supplement bank debt with debt from the international capital markets, and through securitisations. The Trustee-Manager believes that this would enable the Group to maintain its competitive position in the industry, improve yields, and achieve long-term stable cash distributions for Unitholders.

There were no changes in the Trustee-Manager's approach to capital management during the period. The Trust and its subsidiaries are not subject to externally imposed capital requirements other than the financial covenant which the Trustee-Manager is required to comply under the credit facility and the statutory reserve as defined in Note 16.

As at 31 December 2008, the Trustee-Manager has complied with the above externally imposed capital requirements.

**13 ISSUE COSTS**

Issue costs comprise mainly professional, advisory, underwriting, printing and other costs related to the initial public offering of units. These expenses are deducted directly against the unitholders' funds.

Included in the issue costs are non-audit fees paid to auditors of the Trust amounting to \$430,000 mainly for acting as independent reporting accountants with respect to the initial public offering of units in the Trust.

**14 FOREIGN CURRENCY TRANSLATION RESERVE**

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries whose functional currencies are different from the functional currency of the Trust.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**15 HEDGING RESERVE**

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments.

**16 STATUTORY RESERVE**

Statutory reserve refers to the reserve as required under the regulations of the PRC where a wholly-owned foreign enterprise must apportion 10% of its annual after tax-profit to the general reserve account until such reserve reaches 50% of the PRC company's registered capital.

**17 NET ASSET VALUE PER UNIT**

		<b>At 31 December 2008</b>	
	<b>Note</b>	<b>Group</b>	<b>Trust</b>
Net asset value per unit (\$)		0.80	0.75
Total units in issue ('000)	12	300,000	300,000

**18 OTHER TRUST EXPENSES**

Included in other trust expenses is the following item:

	<b>Group</b> <b>16/11/2007 to</b> <b>31/12/2008</b> <b>\$'000</b>
Audit fees paid/payable to auditors of the Trust	250

**19 OTHER INCOME**

	<b>Group</b> <b>16/11/2007 to</b> <b>31/12/2008</b> <b>\$'000</b>
Foreign exchange gain	2,519
Negative goodwill on acquisition of subsidiaries	1,541
Others	173
	<u>4,233</u>

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

**20 NET FINANCE COSTS**

	<b>Group 16/11/2007 to 31/12/2008 \$'000</b>
Interest income:	
– cash and cash equivalents	397
Other finance income	397
Interest expense on credit facility	(229)
Amortisation of transaction costs	(383)
Other finance expense	(612)
Net finance costs	<u>(215)</u>

**21 INCOME TAX CREDIT**

	<b>Note</b>	<b>Group 16/11/2007 to 31/12/2008 \$'000</b>
<b>Current tax expense</b>		
Current period		–
Withholding tax		265
		<u>265</u>
<b>Deferred tax credit</b>		
Origination and reversal of temporary differences	9	(564)
<b>Income tax credit</b>		<u>(299)</u>
<b>Reconciliation of effective tax rate</b>		
Profit before income tax		<u>10,656</u>
Tax calculated using Singapore tax rate of 18%		1,918
Effect of different tax rates in other countries		656
Income not subject to tax		(3,167)
Deferred tax benefit not recognised		29
Withholding tax		265
		<u>(299)</u>

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

**22 INCOME AVAILABLE FOR DISTRIBUTION**

	<b>Group 16/11/2007 to 31/12/2008 \$'000</b>
Profit after income tax	10,955
Distribution adjustments (Note A)	(432)
	<u>10,523</u>
Less:	
Amount relating to the period from the date of listing to 31 December 2007	(331)
Income available for distribution for the period from 1 January 2008 to 31 December 2008	<u>10,192</u>
Distribution to unitholders:	
For the period from 1 January 2008 to 30 June 2008	
– Distribution of 2.17 cents per unit (tax-exempt)	(4,459)
	<u>5,733</u>

On 20 February 2009, the Trust declared a distribution of 2.79 cents per unit (tax-exempt) for the period from 1 July 2008 to 31 December 2008.

**NOTE A**

	<b>Group \$'000</b>
Distribution adjustments for the period from 1 January 2008 to 31 December 2008 comprise:	
Non-cash items:	
– Amortisation of intangible assets	1,232
– Amortisation of lease prepayments	394
– Repayment of financial receivables due to INT FRS 112	1,985
– Deferred tax credit	(543)
– Amortisation of transaction costs on credit facility	383
– Foreign exchange gain	(2,519)
– Negative goodwill on acquisition of subsidiaries	(1,541)
– Others	177
Distribution adjustments	<u>(432)</u>

The Trust will retain all of its distributable cash arising during the period from 3 December 2007 to 31 December 2007 for its working capital. Accordingly, the Trust has not made any distributions to Unitholders in respect of this period.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**22 INCOME AVAILABLE FOR DISTRIBUTION (cont'd)****Waiver and subordination arrangements**

During the period from 1 January 2008 to 31 December 2008 (the "2008 Subordination Period"):

- Hyflux Water Projects Ltd (the "Sponsor SPV"), a company incorporated in the British Virgin Islands, has agreed to waive its entitlement to all distributions payable in respect of all the units held (the "Subordinated Units") in favour of the holders of all the other units.
- In the event that the actual distribution per unit ("DPU") payable by the Trust, after giving effect to the waiver by the Sponsor SPV, in any distribution period in the current financial period is less than the forecast DPU of 4.46 cents, the Trustee-Manager has agreed to elect to receive its management fee, in units (the "2008 Fee Units") instead of cash, up to the amount of the management fee, or the amount required to achieve the forecast DPU for the year, whichever is lower. The Trustee-Manager will also waive all its entitlement to the distributions payable in respect of the 2008 Fee Units in the financial period.
- In the event that the forecast DPU is not achieved in the first half of the 2008 Subordination Period notwithstanding the receipt of the 2008 Fee Units and the waiver of the distributions on the 2008 Fee Units, the shortfall between the actual DPU paid and the relevant forecast DPU will be brought forward to the next half, and the receipt of the management fee in Units and waiver arrangements as described above will apply to the shortfall in addition to the relevant forecast DPU for the next half, until the forecast DPU for the financial period is achieved.
- In the event that the aggregate forecast DPU for the year is not achieved in the second half of the 2008 Subordination Period notwithstanding the receipt of the 2008 Fee Units and the waiver of the distributions on the 2008 Fee Units, and where any part of the management fee for the first half of the 2008 Subordination Period had been received by the Trustee-Manager in cash, the Trustee-Manager has agreed to receive units in exchange for the refund of such management fee received in cash, up to the amount of the management fee received in cash in the first half of the 2008 Subordination Period or the amount required to achieve the aggregate forecast DPU for the year, whichever is lower.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**23 EARNINGS PER UNIT**

The calculation of basic earnings per unit is based on weighted average number of units during the period and profit for the period.

	<b>Group 16/11/2007 to 31/12/2008 \$'000</b>
Profit for the period	<u>10,955</u>
	<b>Group 16/11/2007 to 31/12/2008 Number of units '000</b>
Weighted average number of units outstanding during the period	<u>300,000</u>

Diluted earnings per unit is the same as the basic earnings per unit as there are no dilutive instruments in issue during the period.

**24 ACQUISITION OF SUBSIDIARIES**

The list of significant subsidiaries acquired during the period is disclosed in Note 4.

On 3 December 2007, the Group acquired all the shares in Hyflux Utility Ltd. and its subsidiaries for \$161,653,000 in cash. Hyflux Utility Ltd is an investment holding company while its subsidiaries each own one or more water-related infrastructure assets. From 3 December 2007 to 31 December 2008, Hyflux Utility Ltd and its subsidiaries contributed a net profit of \$11,851,000 to the consolidated net profit for the period.

On 23 December 2008, the Group acquired all the shares in Hyflux Utility WWT (MG) Limited, Hyflux Utility WTP (GY) Limited and Hyflux Utility (WX) Limited and the subsidiaries for \$57,000,000 in cash. If the acquisition had occurred on 16 November 2007, the Group's revenue for the period ended 31 December 2008 would have increased by \$978,000 and net profit would have decreased by \$592,000 before accounting for financing costs attributable to the acquisitions. The allocation of the purchase price to the identifiable assets, liabilities and contingent liabilities acquired in this business combination is currently being determined and has not been completed. In the meantime, the provisional goodwill that results from the difference between the purchase price and the adjusted carrying amounts of the assets and liabilities acquired in Hyflux Utility WWT (MG) Limited and its subsidiary amounts to \$145,000 and is reported under intangible assets. The negative goodwill that results from the difference between the purchase price and the adjusted carrying amounts of the assets and liabilities acquired in Hyflux Utility WTP (GY) Limited and Hyflux Utility (WX) Limited and their respective subsidiaries amounts to \$1,541,000 and is reported in the income statement.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**24 ACQUISITION OF SUBSIDIARIES (cont'd)**

The effect of acquisition of subsidiaries is set out below:

	Carrying amounts \$'000	Fair value adjustments \$'000	Recognised values \$'000
Intangible assets	27,158	56,025	83,183
Non-current financial receivables	122,662	–	122,662
Non-current trade and other receivables	2,498	–	2,498
Non-current lease prepayments	14,610	–	14,610
Financial receivables	2,859	–	2,859
Trade and other receivables	10,507	–	10,507
Cash and cash equivalents	37,218	–	37,218
Trade and other payables	(51,889)	–	(51,889)
Deferred tax liabilities	(2,198)	(14,087)	(16,285)
Shareholders' loan assumed	(157,673)	–	(157,673)
Net identifiable assets and liabilities acquired	<u>5,752</u>	<u>41,938</u>	47,690
Goodwill on acquisition of subsidiaries			15,465
Negative goodwill on acquisition of subsidiaries			(1,541)
Shareholders' loan and interest on shareholders' loan assumed			<u>158,723</u>
			<u>220,337</u>
Purchase consideration			218,653
Transaction costs			<u>1,684</u>
Total consideration			220,337
Less: Cash and cash equivalents of subsidiaries acquired			<u>(37,218)</u>
Cash outflow on acquisition of subsidiaries			<u>183,119</u>

Pre-acquisition carrying amounts were determined based on applicable FRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values. In determining the fair value of concession rights acquired on 3 December 2007 and 23 December 2008, the Group applied the discount rates of 16% and 18% respectively to the estimated cash flows to be generated from the concession rights.

The goodwill acquired on the acquisition is attributable mainly to the projected cashflows from the subsidiaries acquired.

## **NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

### **25 FINANCIAL RISK MANAGEMENT**

#### **Overview**

Risk management is integral to the whole business of the Group. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The Trustee-Manager continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit Committee and the Risk Management and Compliance Committee oversee how the Trustee-Manager 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.

#### **Credit risk**

Credit risk is the potential financial loss resulting from the failure of a customer or counterparty to settle its financial and contractual obligations to the Group as and when they fall due.

The Group has no significant concentration of credit risk. At the balance sheet date, the Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Cash and fixed deposits are placed with banks and financial institutions which are regulated. Investments and transactions involving derivative financial instruments are allowed only with counterparties who have sound credit ratings.

#### **Liquidity risk**

The Trustee-Manager monitors the Group's liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management of the Trustee-Manager to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. 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 has a credit facility which allows the Group to draw up to US\$6 million to fund general working capital requirements of the Trustee-Manager and up to US\$60 million to fund the acquisition of additional water-related infrastructure assets. The Group has an undrawn commitment of US\$25 million as at 31 December 2008.

#### **Market risk**

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates 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 returns.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**25 FINANCIAL RISK MANAGEMENT (cont'd)****Interest rate risk**

The Group's exposure to changes in interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Trustee-Manager on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

The Group has entered into interest rate swap arrangements, denominated in Singapore dollar, to ensure that its exposure to changes in interest rates on bank loans is on a fixed rate basis. The swaps mature on 31 December 2009.

At 31 December 2008, the Group has interest rate swaps with a total notional contract amount of \$59,101,500, whereby it pays interest at a fixed rate of 1.00% per annum on the payment date falling on or before 30 June 2009 and 4.22% per annum on all other payment dates falling after 30 June 2009 up till 31 December 2009, and receives a variable rate equal to 6-month SOR + 1.98%. The Group classifies these interest rate swaps as cash flow hedges.

The fair value of these interest rate swaps as at 31 December 2008 is \$529,000. This amount is recognised as assets in "derivative financial instruments".

## Sensitivity analysis

For interest rate swap accounted for as a cash flow hedge and other variable rate financial assets and liabilities, a change of 100 bp in interest rate at the reporting date would increase (decrease) profit or loss and unitholders' funds by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

At 31 December 2008	Profit or loss		Unitholders' funds	
	100 bp increase \$'000	100 bp decrease \$'000	100 bp increase \$'000	100 bp decrease \$'000
<b>Group</b>				
Variable interest rate loans	(309)	309	–	–
Interest rate swaps	309	(309)	309	(309)
	–	–	309	(309)
<b>Trust</b>				
Variable interest rate loans	(309)	309	–	–
Interest rate swaps	309	(309)	309	(309)
Amounts due from subsidiaries	1,498	(1,498)	–	–
	1,498	(1,498)	309	(309)

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

**25 FINANCIAL RISK MANAGEMENT** (cont'd)**Foreign currency risk**

The Group is exposed to foreign currency risk on operating expenses, amounts due from subsidiaries and cash and cash equivalents that are denominated in a currency other than the respective functional currencies of the Group entities. The currencies giving rise to this risk are primarily Chinese Renminbi and US dollar.

The Group's and the Trust's exposures to foreign currencies are as follows:

<b>Group</b>	<b>At 31 December 2008</b>	
	<b>US dollar \$'000</b>	<b>Chinese Renminbi \$'000</b>
Cash and cash equivalents	14,463	–
Trade and other receivables	73	–
Trade and other payables	(665)	(49)
	<u>13,871</u>	<u>(49)</u>

<b>Trust</b>	<b>At 31 December 2008</b>	
	<b>US dollar \$'000</b>	
Cash and cash equivalents	175	
Trade and other payables	(481)	
Loans to subsidiaries	203,310	
	<u>203,004</u>	

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**25 FINANCIAL RISK MANAGEMENT (cont'd)****Foreign currency risk (cont'd)**

Sensitivity analysis

A 1% strengthening of Singapore dollar against the following currencies at the reporting date would increase (decrease) unitholders' funds and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

At 31 December 2008	Group		Trust	
	Unitholders' funds \$'000	Profit or loss \$'000	Unitholders' funds \$'000	Profit or loss \$'000
US dollar	–	(139)	–	(2,030)
Chinese Renminbi	–	n/m	N/A	N/A

n/m denotes amount below \$1,000.

N/A denotes not applicable.

A 1% weakening of Singapore dollar against the above currencies would have had the equal but opposite effect on the unitholders' funds and profit or loss by the amounts shown above, on the basis that all other variables remain constant.

**Estimation of fair values**

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments of the Group and the Trust.

**Derivatives**

The fair value of forward foreign exchange contracts is based on their listed market price.

The fair value of interest rate swaps is estimated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

**Non-derivative financial liabilities**

The carrying amounts of variable interest rate loans approximate their fair values as the interest rates approximate the market rate of interest at the reporting date.

**Other financial assets and liabilities**

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents and trade and other payables) are assumed to approximate their fair values because of the short period to maturity. All other financial assets are discounted to determine their fair values.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**26 COMMITMENTS**

- (a) Under the terms of a concession agreement entered into by a subsidiary, the subsidiary is obligated to expand the relevant plant's designed capacity at the request of the grantor of the concession agreement if the volume treated by the subsidiary's plant exceeds 90% of its operational capacity continuously for more than six months.
- (b) The Group entered into various construction contracts with a related corporation of the Trustee-Manager. The construction contracts are fixed price contracts where progressive payments are made in accordance with construction milestones, stipulated within each construction contract.

At 31 December 2008, the Group has significant commitments for future payments under the construction contracts as follows:

	<b>Group \$'000</b>	<b>Trust \$'000</b>
Within 1 year	12,651	–

**27 RELATED PARTIES**

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common significant influence. Related parties may be individuals or other entities. The Trustee-Manager is a wholly-owned subsidiary of a substantial unitholder of the Trust.

In the normal course of the operations of the Trust, management fees have been paid or are payable to the Trustee-Manager.

During the financial period, other than those disclosed elsewhere in the financial statements, the following significant related party transactions were carried out in the normal course of business:

	<b>Group \$'000</b>
Amount paid/payable to related corporations of the Trustee-Manager under the following contracts:	
– operations and maintenance contracts	4,069
– management services contracts	400
– construction contracts	39,375
Expenses paid/payable on behalf of the Group by related corporations of the Trustee-Manager	2,761
Management fee paid/payable to the Trustee-Manager	557

These related corporations are wholly-owned subsidiaries of the Sponsor, who is a substantial unitholder of the Trust.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**28 COMPARATIVE INFORMATION**

No comparative figures have been presented for the Group and the Trust as this is the first set of financial statements prepared for the Group and the Trust since the date of constitution of the Trust.

**29 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

The Group has not applied the following accounting standards (including their consequential amendments) and interpretations that have been issued as of the balance sheet date but are not yet effective:

- FRS 1 (revised 2008) Presentation of Financial Statements
- FRS 23 (revised 2007) Borrowing Costs
- Amendments to FRS 32 Financial Instruments: Presentation and FRS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to FRS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- Amendments to FRS 101 First-time Adoption of Financial Reporting Standards and FRS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to FRS 102 Share-based Payment – Vesting Conditions and Cancellations
- FRS 103 (revised 2008) Business Combinations and FRS 27 (amended 2008) Consolidated and Separate Financial Statements
- FRS 108 Operating Segments
- Improvements to FRSs 2008
- INT FRS 113 Customer Loyalty Programmes
- INT FRS 116 Hedges of a Net Investment in a Foreign Operation

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Period from 16 November 2007 (date of constitution) to 31 December 2008

### 29 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (cont'd)

FRS 1 (revised 2008) will become effective for the Group's financial statements for the year ending 31 December 2009. The revised standard requires an entity to present, in a statement of changes in unitholders' funds, all owner changes in unitholders' funds. All non-owner changes in unitholders' funds (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in unitholders' funds. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements. FRS 1 (revised 2008) does not have any impact on the Group's financial position or results.

FRS 23 (revised 2007) will become effective for financial statements for the year ending 31 December 2009. FRS 23 (revised 2007) removes the option to expense borrowing costs and requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. FRS 23 (revised 2007) does not have any impact on the Group's financial position or results.

The amendments to FRS 32 and FRS 1 on puttable financial instruments will become effective for the Group's financial statements for the year ending 31 December 2009. The amendments allow certain instruments that would normally be classified as liabilities to be classified as equity if and only if they meet certain conditions. The Group does not issue such puttable financial instruments and thus the application of these amendments is not expected to have any significant impact on the Group's financial statements.

The amendments to FRS 39 on eligible hedged items will become effective for the Group's financial statements for the year ending 31 December 2010. The amendments clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in 2 particular situations: (i) the designation of a one-sided risk in a hedged item; and (ii) the designation of inflation in particular situations. The application of these amendments is not expected to have any significant impact on the Group's financial statements.

The amendments to FRS 101 and FRS 27 on the cost of an investment in a subsidiary, jointly controlled entity or associate will become effective for the Group's financial statements for the year ending 31 December 2009. The amendments remove the definition of "cost method" currently set out in FRS 27, and instead require an entity to recognise all dividend from a subsidiary, jointly controlled entity or associate as income in its separate financial statements when its right to receive the dividend is established. The application of these amendments is not expected to have any significant impact on the Group's financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

Period from 16 November 2007 (date of constitution) to 31 December 2008

**29 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (cont'd)**

FRS 27 (amended 2008) will become effective for the Group's financial statements for the year ending 31 December 2010. The amended FRS 27 requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to FRS 27 are not expected to have a significant impact on the consolidated financial statements.

Improvements to FRSs 2008 will become effective for the Group's financial statements for the year ending 31 December 2009, except for the amendment to FRS 105 Non-current Assets Held for Sale and Discontinued Operations which will become effective for the year ending 31 December 2010. Improvements to FRSs 2008 contain amendments to numerous accounting standards that result in accounting changes for presentation, recognition or measurement purposes and terminology or editorial amendments. The Group is in the process of assessing the impact of these amendments.

INT FRS 116 will become effective for the Group's financial statements for the year ending 31 December 2009. INT FRS 116 provides guidance on identifying foreign currency risks and hedging instruments that qualify for hedge accounting in the hedge of a net investment in a foreign operation. It also explains how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item. The application of this interpretation is not expected to have any significant impact on the Group's financial statements.

Other than the changes in disclosures relating to FRS 1, the initial application of these standards (including their consequential amendments) and interpretations is not expected to have any material impact on the Group's financial statements. The Group has not considered the impact of accounting standards issued after the balance sheet date.

## USE OF IPO PROCEEDS

Application	Amount allocated (S\$ million)	Amount deployed as at 6 March 2009 (S\$ million)
Cash payment to SinoSpring Utility Ltd for acquisition of Hyflux Utility Ltd. ("HUL")	158.9	161.7
Costs related to the acquisition of HUL and the issue of all HWT's units	17.7	13.7
Costs related to the remaining EPC (Engineering, Procurement and Construction) costs and Development costs of the six Completing Plants* and Liaoyang WWTP	55.0	46.0
Costs related to the credit facility	1.4	1.4
General corporate and working capital purposes	1.0	1.0
<b>Total</b>	<b>234.0</b>	<b>223.8</b>

\* Completing Plants refer to the plants within the Initial Portfolio which were under construction and had not commenced commercial operations as at the date of the Prospectus (23 November 2007), namely, the Beichen WWTP, Beichen WRP, Dafeng WTP, Langfang WRP, Yangzhou WWTP and Zunhua WTP.

## STATISTICS OF UNITHOLDINGS

### DISTRIBUTION OF UNITHOLDERS BY SIZE OF UNITHOLDINGS

As at 12 March 2009

Size of Unitholdings	No. of Unitholders	%	No. of Units	%
1 – 999	3	0.04	311	0.00
1,000 – 10,000	6,330	78.78	24,603,374	8.20
10,001 – 1,000,000	1,687	20.99	70,541,212	23.51
1,000,001 and above	15	0.19	204,855,103	68.29
<b>Total</b>	<b>8,035</b>	<b>100.00</b>	<b>300,000,000</b>	<b>100.00</b>

### TWENTY LARGEST UNITHOLDERS

As at 12 March 2009

Name of Unitholder	No. of Units	% of Units
1 Hyflux Water Projects Ltd	94,500,000	31.50
2 DBSN Services Pte Ltd	27,713,000	9.24
3 Citibank Nominees Singapore Pte Ltd	24,028,500	8.01
4 UOB Kay Hian Pte Ltd	11,230,000	3.74
5 DBS Nominees Pte Ltd	10,975,000	3.66
6 HSBC (Singapore) Nominees Pte Ltd	8,868,000	2.96
7 United Overseas Bank Nominees Pte Ltd	6,793,000	2.26
8 Tommie Goh Thiam Poh	4,620,000	1.54
9 Lai Chong Meng	3,500,000	1.17
10 Raffles Nominees Pte Ltd	3,216,533	1.07
11 Phillip Securities Pte Ltd	2,295,000	0.77
12 Gay Chee Cheong	2,191,000	0.73
13 DB Nominees (Singapore) Pte Ltd	1,993,070	0.66
14 DBS Vickers Securities (Singapore) Pte Ltd	1,724,000	0.57
15 Lim & Tan Securities Pte Ltd	1,208,000	0.40
16 Ng Kee Choe	1,000,000	0.33
17 Foo Hee Kiang	900,000	0.30
18 OCBC Securities Private Ltd	813,000	0.27
19 Merrill Lynch (Singapore) Pte Ltd	810,767	0.27
20 ING Nominees (Singapore) Pte Ltd	736,000	0.25
<b>Total:</b>	<b>209,114,870</b>	<b>69.70</b>

### PUBLIC UNITHOLDINGS

Based on the information available to the Trustee-Manager as at 12 March 2009, approximately 68.5% of the issued units of HWT is held by the public and therefore, Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited is complied with.

## SUBSTANTIAL UNITHOLDERS

Name of Substantial Unitholder	Direct Interest	Deemed Interest	Total Interest	Percentage of Total Units in Issue <sup>*1</sup>
Hyflux Water Projects Ltd.	94,500,000	–	94,500,000	31.5%
Schroders Investment Management Group <sup>*2</sup>	–	20,368,000	20,368,000	6.8%
Hyflux Ltd <sup>*3</sup>	–	94,500,000	94,500,000	31.5%
Lum Ooi Lin <sup>*4</sup>	–	94,500,000	94,500,000	31.5%

<sup>\*1</sup> The percentage of total Units in issue is based on 300,000,000 Units in issue as at 12 March 2009.

<sup>\*2</sup> The deemed interest of Schroders Investment Management Group includes direct and deemed interest of Schroder Investment Management Limited, Schroder Investment Management (Singapore) Ltd, Schroder Investment Management (Hong Kong) Limited and Schroder Investment Management (Japan) Limited.

<sup>\*3</sup> Hyflux Ltd owns the entire share capital of the Hyflux Water Projects Ltd. As such, Hyflux Ltd is deemed interested in the Units held by the Hyflux Water Projects Ltd.

<sup>\*4</sup> Lum Ooi Lin, owns 33.78% in Hyflux Ltd, where she is its Group Chief Executive Officer and President as well as its only controlling shareholder. As such, Lum Ooi Lin is deemed interested in the Units held by Hyflux Water Projects Ltd..

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## NOTICE OF ANNUAL GENERAL MEETING

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### HYFLUX WATER TRUST

*(a business trust constituted on 16 November 2007 under the laws of Singapore)  
(Registration Number: 2007007)*

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Hyflux Water Trust ("HWT") will be held at The Auditorium, Hyflux Building, 202 Kallang Bahru, Singapore 339339 on 23 April 2009 at 10.30 a.m. for the purpose of considering and, if thought fit, passing, with or without amendment, the following resolutions:

#### ORDINARY BUSINESS

1. To receive and adopt the Report of the Trustee-Manager (as defined below), Statement by the Trustee-Manager and the Audited Financial Statements of HWT for the period from 16 November 2007 to 31 December 2008 together with the Auditors' Report thereon.

**(Resolution 1)**

2. To re-appoint Messrs KPMG LLP as external auditors of HWT for the financial year ending 31 December 2009, and to authorise Hyflux Water Trust Management Pte. Ltd., (as trustee-manager of HWT) (the "Trustee-Manager") to fix their remuneration.

**(Resolution 2)**

#### SPECIAL BUSINESS

3. That authority be and is hereby given to the Trustee-Manager to:
  - (a) (i) issue units ("Units") in HWT whether by way of rights, bonus or otherwise; and/or
  - (ii) make or grant offers, agreements, options or awards (collectively, "Instruments") that might or would require Units to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible, exercisable or redeemable into Units,

at any time and upon such terms and conditions and for such purposes and to such persons as the Trustee-Manager may in its absolute discretion deem fit;

  - (b) (notwithstanding that the authority conferred by this Resolution may have ceased to be in force) issue Units in pursuance of any Instrument made or granted by the Trustee-Manager while this Resolution was in force; and
  - (c) the Trustee-Manager and any Director of the Trustee-Manager be authorised to do all such things and execute all documents as it or he may consider necessary or expedient to give effect to this Resolution as it or he may deem fit,

## NOTICE OF ANNUAL GENERAL MEETING

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### SPECIAL BUSINESS (cont'd)

provided that:

- (1) the aggregate number of Units to be issued pursuant to this Resolution (including Units to be granted or issued in pursuance of any Instrument made or granted to this Resolution):
  - (A) by way of renounceable rights issues on a *pro rata* basis to Unitholders ("Renounceable Rights Issues") does not exceed 100% of the total number of Units in issue as at the time this Resolution is passed ("Total Number of Units in Issue") (as calculated in accordance with sub-paragraph (3) below); and
  - (B) other than by way of Renounceable Rights Issues ("Other Share Issues") does not exceed 50% of the Total Number of Units in Issue (as calculated in accordance with sub-paragraph (3) below), of which the aggregate number of Units to be issued other than on a *pro rata* basis to Unitholders (including Units to be granted or issued in pursuance of any Instrument made or granted to this Resolution) does not exceed 20% of the Total Number of Units in Issue (as calculated in accordance with sub-paragraph (3) below);
- (2) the Renounceable Rights Issues and Other Share Issues does not, in aggregate, exceed 100% of the Total Number of Units in Issue (as calculated in accordance with sub-paragraph (3) below);
- (3) subject to such manner of calculation and adjustments as may be prescribed by the Singapore Exchange Securities Trading Limited ("SGX-ST") for the purpose of determining the aggregate number of Units that may be issued under sub-paragraph (1) above, the percentage representing such aggregate number of Units shall be based on the total number of Units in issue as at the time this Resolution is passed, after adjusting for:
  - (i) new Units arising from the conversion or exercise of any Instruments which are outstanding or subsisting at the time this Resolution is passed; and
  - (ii) any subsequent bonus issue, consolidation or subdivision of Units;
- (4) in exercising the authority conferred by this Resolution, the Trustee-Manager shall comply with the provisions of the Listing Manual of the SGX-ST (unless such compliance has been waived by the SGX-ST and the Trust Deed); and
- (5) (unless revoked or varied by the Unitholders in general meeting), the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting or the date by which the next Annual General Meeting is required by law to be held, whichever is earlier.

**(Resolution 3)**

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## NOTICE OF ANNUAL GENERAL MEETING

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### SPECIAL BUSINESS (cont'd)

4. To consider and if thought fit, to pass the following resolution as an Ordinary Resolution, with or without any modifications:
- (i) that approval be and is hereby given, for the purposes of Chapter 9 of the Listing Manual ("Chapter 9") of the Singapore Exchange Securities Trading Limited ("SGX-ST"), for HWT, its subsidiaries and associated companies that are "entities at risk" (as that term is used in Chapter 9), or any of them, to enter into any of the transactions falling within the types of interested person transactions described in HWT's Appendix accompanying this Notice dated 7 April 2009 (the "Appendix") issued by the Trustee-Manager with any party who is of the class of interested persons described in the Appendix, provided that such transactions are made on normal commercial terms and in accordance with the review procedures for such interested person transactions;
  - (ii) the approval given in paragraph (i) above (the "IPT Mandate") shall, unless revoked or varied by HWT in general meeting, continue in force until the conclusion of the next Annual General Meeting of HWT; and
  - (iii) the Trustee-Manager and any director of the Trustee-Manager ("Director") be and are hereby severally authorised to complete and do all such acts and things (including executing all such documents as may be required) as the Trustee-Manager or such Director may consider expedient or necessary or in the interests of HWT to give effect to the IPT Mandate and/or this Resolution.

**(Resolution 4)**

To transact any other business that can be transacted at an Annual General Meeting.

By Order of the Board of Hyflux Water Trust Management Pte. Ltd. as Trustee-Manager of Hyflux Water Trust.

**Pang Yeong Piao**  
Company Secretary

**Singapore**  
7 April 2009

## NOTICE OF ANNUAL GENERAL MEETING

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### Notes

1. A Unitholder of HWT entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a Unitholder of HWT.
2. The instrument appointing a proxy must be lodged at the office of the Trustee-Manager at 202 Kallang Bahru, Hyflux Building, Singapore 339339 not less than 48 hours before the time appointed for the Annual General Meeting (i.e. by 10.30 a.m. on 21 April 2009).
3. Ordinary Resolution 4 seeks to renew the IPT Mandate first approved at the Extraordinary General Meeting held on 4 September 2008 for HWT, its subsidiaries and associated companies that are "entities at risk" (as the term is used in Chapter 9), or any of them to enter into any of the transactions falling within the types of interested person transactions described in the Appendix. The IPT Mandate, if Ordinary Resolution 4 is passed, shall continue in force unless revoked or varied by HWT in general meeting until the conclusion of the next Annual General Meeting of HWT.

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## NOTES TO PROXY FORM

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IMPORTANT: PLEASE READ THE NOTES TO PROXY FORM BELOW

### Notes to Proxy Form:

1. This Proxy Form is not valid for use by investors who use Central Provident Fund monies to purchase units ("CPF Investors") and shall be invalid for all intents and purposes if used or purported to be used by them.
2. CPF Investors who wish to attend the Annual General Meeting as OBSERVERS have to submit their requests through their agent banks so that their agent banks may register with the Company Secretary.
3. A unitholder of HWT ("Unitholder") entitled to attend and vote at the Annual General Meeting is entitled to appoint one or two proxies to attend and vote in his stead.
4. Where a Unitholder appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his holding (expressed as a percentage of the whole) to be represented by each proxy.
5. A proxy need not be a Unitholder.
6. A Unitholder should insert the total number of Units held. If the Unitholder has Units entered against his name in the Depository Register maintained by The Central Depository (Pte) Limited ("CDP"), he should insert that number of Units. If the Unitholder has Units registered in his name in the Register of Unitholders of HWT, he should insert that number of Units. If the Unitholder has Units entered against his name in the said Depository Register and registered in his name in the Register of Unitholders, he should insert the aggregate number of Units. If no number is inserted, this form of proxy will be deemed to relate to all the Units held by the Unitholder.
7. The instrument appointing a proxy or proxies must be deposited at the office of the Trustee-Manager at 202 Kallang Bahru, Hyflux Building, Singapore 339339 not less than 48 hours before the time appointed for the Annual General Meeting i.e. by 10.30 a.m. on 21 April 2009.
8. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
9. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must (unless previously registered with the Trustee-Manager) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
10. A corporation which is a Unitholder may, by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at the Annual General Meeting. The person so authorised shall, upon production of a copy of such resolution certified by a director of the corporation to be a true copy, be entitled to exercise the powers on behalf of the corporation so represented as the corporation could exercise in person if it were an individual.

## NOTES TO PROXY FORM

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11. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Trustee-Manager reserves the right to refuse the admission of any person or persons appointed under the instrument of proxy, to the meeting.
12. The Trustee-Manager shall be entitled to reject a Proxy Form which is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the Proxy Form. In addition, in the case of Units entered in the Depository Register, the Trustee-Manager may reject a Proxy Form if the Unitholder, being the appointor, is not shown to have Units entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Annual General Meeting, as certified by CDP to the Trustee-Manager.
13. All Unitholders will be bound by the outcome of the Annual General Meeting regardless of whether they have attended or voted at the Annual General Meeting.
14. At any meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded (i) by the Chairman; (ii) by five or more Unitholders having the right to vote at the meeting; (iii) by Unitholder(s) representing not less than 10% of the total voting rights of the Unitholders having the right to vote at the meeting. Unless a poll is so demanded, a declaration by the Chairman that such a resolution has been carried unanimously or by a particular majority or lost shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
15. On a show of hands, every Unitholder who (being an individual) is present in person or by proxy or (being a corporation) is present by one of its officers as its proxy shall have one vote. On a poll, every Unitholder who is present in person or by proxy shall have one vote for every Unit of which he is the Unitholder. A person entitled to more than one vote need not use all his votes or cast them the same way.

**HYFLUX WATER TRUST**

(a business trust constituted on 16 November 2007 under the laws of Singapore)  
(Registration Number: 2007007)

**PROXY FORM  
ANNUAL GENERAL MEETING**

I/We \_\_\_\_\_ (Name)

of \_\_\_\_\_ (Address)

being a unitholder/unitholders of Hyflux Water Trust ("HWT"), hereby appoint:

Name	Address	NRIC/ Passport No.	Proportion of Shareholdings	
			No. of Units	%

and/or (delete as appropriate)

Name	Address	NRIC/ Passport No.	Proportion of Shareholdings	
			No. of Units	%

or, both of whom failing, the Chairman of the Annual General Meeting as my/our proxy/proxies to attend and to vote for me/us on my/our behalf and, if necessary, to demand a poll, at the Annual General Meeting of HWT to be held at The Auditorium, Hyflux Building, 202 Kallang Bahru, Singapore 339339, on 23 April 2009 at 10.30 a.m. and any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the resolutions to be proposed at the Annual General Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the Annual General Meeting.

No.	Ordinary Resolutions	To be used on a show of hands		To be used in the event of a poll	
		For *	Against *	No. of Votes For **	No. of Votes Against **
1	Receive and adopt Report of Trustee-Manager, Statement by the Trustee-Manager, Audited Financial Statements				
2	Re-appoint KPMG LLP as external auditors of HWT				
3	Units issue mandate				
4	IPT Mandate				

\* If you wish to exercise all your votes "For" or "Against", please tick (✓) within the box provided.

\*\* If you wish to exercise all your votes "For" or "Against", please tick (✓) within the box provided. Alternatively, Please indicate the number of votes as appropriate.

Dated \_\_\_\_\_

\_\_\_\_\_  
Signature(s) of Unitholder(s)/Common Seal

Total number of Units held

fold along this line(1)

Affix  
Postage  
Stamp

**The Company Secretary**  
**HYFLUX WATER TRUST MANAGEMENT PTE. LTD.**  
(as Trustee-Manager of Hyflux Water Trust)  
202 Kallang Bahru  
Hyflux Building  
Singapore 339339

fold along this line(2)

## CORPORATE INFORMATION

### Directors of the Trustee-Manager

**Dr Chua Yong Hai**  
*Independent Director and  
Chairman of Board*

**Mr Lai Chong Meng**  
*Independent Director*

**Mr Ivan Png Paak Liang**  
*Independent Director*

**Mr Simon Tay Seong Chee**  
*Independent Director*

**Ms Olivia Lum Ooi Lin**  
*Non-Independent and  
Non-Executive Director*

**Mr Sam Ong Eng Keang**  
*Non-Independent and  
Non-Executive Director*

**Mr Gary Kee Eng Kwee**  
*Non-Independent and  
Executive Director,  
Chief Executive Officer*

### Audit Committee

**Mr Lai Chong Meng**  
*Chairman*

**Mr Ivan Png Paak Liang**  
**Mr Simon Tay Seong Chee**  
**Mr Sam Ong Eng Keang**

### Nominating and Remuneration Committee

**Dr Chua Yong Hai**  
*Chairman*  
**Mr Ivan Png Paak Liang**  
**Ms Olivia Lum Ooi Lin**

### Risk Management & Compliance Committee

**Mr Simon Tay Seong Chee**  
*Chairman*

**Mr Lai Chong Meng**  
**Mr Ivan Png Paak Liang**  
**Mr Sam Ong Eng Keang**

### Company Secretary

**Mr Pang Yeong Piao**

### Trustee-Manager

**Hyflux Water Trust  
Management Pte. Ltd.**  
202 Kallang Bahru, Hyflux Building  
Singapore 339339  
Phone: +65 6499 5000  
Fax: +65 6499 5001  
Website: [www.hyfluxwatertrust.com](http://www.hyfluxwatertrust.com)  
Email: [enquiry@hyfluxwatertrust.com](mailto:enquiry@hyfluxwatertrust.com)

### External Auditors

**KPMG LLP**  
Certified Public Accountants  
16 Raffles Quay  
#22-00 Hong Leong Building  
Singapore 048581  
Phone: +65 6213 3388  
Fax: +65 6225 0984

Partner in charge: Ms Karen Lee Shu Pei  
Year of Appointment: 2008

### Internal Auditors

**Ethos Advisory Pte Ltd**  
64 Cecil Street, #06-01  
IOB Building,  
Singapore 049711  
Phone: +65 6221 1788  
Fax: +65 6221 5576

### Unit Registrar and Transfer Office

**Tricor Barbinder Share  
Registration Services**  
8 Cross Street  
#11-00 PWC Building  
Singapore 048424  
Phone: +65 6236 3333  
Fax: +65 6236 4399

### Bankers

**Bangkok Bank Public  
Company Limited**  
180 Cecil Street  
Bangkok Bank Building  
Singapore 069546

**CIMB Bank Berhad**  
50 Raffles Place, 09-01  
Singapore Land Tower  
Singapore 048623

**Natixis, Singapore Branch**  
50 Raffles Place #41-01  
Singapore Land Tower  
Singapore 048623

**Oversea-Chinese Banking  
Corporation Limited**  
65 Chulia Street  
OCBC Centre  
Singapore 049513

J. P. Morgan (S.E.A.) Limited was the Sole Global Coordinator, Financial Adviser, Bookrunner and Issue Manager, and together with DBS Bank Ltd and UBS AG, acting through its business group, UBS Investment Bank, were the Joint Lead Managers and Joint Underwriters for the Initial Public Offering of units in Hyflux Water Trust.



**Hyflux Water Trust Management Pte. Ltd.**

(in its capacity as Trustee-Manager of Hyflux Water Trust)

Hyflux Building

202 Kallang Bahru Singapore 339339

Tel: (65) 6499 5000

Fax: (65) 6499 5001

[www.hyfluxwatertrust.com](http://www.hyfluxwatertrust.com)

Company Registration No: 200717960D