

HYFLUX LTD

Company Registration No: 200002722Z

PROPOSED PARTIAL DIVESTMENT OF INTEREST IN SINGSPRING PTE LTD TO CITYSPRING INFRASTRUCTURE TRUST

Introduction

Following the announcement by Hyflux Ltd ("Company") on 21 December 2006 on the proposed restructuring and divestment of part of its interest in SingSpring Pte Ltd ("SingSpring") ("Restructuring"), the Company is pleased to announce that SingSpring has entered into all material transaction documentation including a restructuring agreement in connection with the above.

About SingSpring

SingSpring is the owner of the first seawater desalination plant in Singapore, with a designed capacity of 136,380 m³ per day (the "Plant"). SingSpring has entered into a 20-year water purchase agreement with the Public Utilities Board ("PUB"). The seawater desalination plant has been completed and operational since end 2005.

Revised Structure After Restructuring

SingSpring and SingSpring Trust

Pursuant to the Restructuring, SingSpring will vest all its assets and its sole business of its seawater desalination plant to a trust ("SingSpring Trust"). SingSpring will remain as the legal owner of the Plant and as the party to the water purchase agreement, but will do so in a new capacity as a trustee of the SingSpring Trust.

The beneficial owners of the SingSpring Trust will be the Company and CitySpring Infrastructure Trust ("CitySpring").

CitySpring and its proposed listing

CitySpring is a business trust which is constituted with CitySpring Infrastructure Management Pte Ltd as its trustee-manager. CitySpring has been formed with a view to acquiring an interest in, among others, the SingSpring Trust and to being listed, with Temasek Holdings (Private) Limited as its sponsor, as an infrastructure business trust on the Singapore Exchange Securities Trading Limited ("SGX-ST").

CitySpring has today lodged a preliminary prospectus with the Monetary Authority of Singapore in connection with its initial public offering.

Other features

The Restructuring is subject to the listing of CitySpring taking place. The purchase price at which SingSpring will vest all its assets and business undertakings (including the Plant) onto the SingSpring Trust will be determined based upon the issue price of the units in CitySpring offered in connection with the listing of CitySpring. Upon completion of the Restructuring, Hyflux and CitySpring will hold 30% and 70% interest, respectively, in the SingSpring Trust.

The Company has entered into discussions with the trustee-manager of CitySpring, pursuant to which the Company has offered a right of first refusal to CitySpring to purchase SinoSpring Utility Ltd's portfolio of wholly-owned wastewater treatment and water treatment projects in China. SinoSpring Utility Ltd is a 80% owned subsidiary of the Company. Any purchase of any such projects will be subject to the parties' agreement on the relevant terms of the purchase and all necessary approvals being obtained.

Operations and Maintenance

Following the Restructuring, SingSpring will remain as the contracting party under the water purchase agreement with PUB and the Company's wholly owned subsidiary, Hyflux Engineering Pte Ltd, will continue to be the operator of the Plant for the entire term of the water purchase agreement.

Commenting on the proposed divestment of SingSpring, Group CEO and president of the Company Ms Olivia Lum says: "We are happy that we have today achieved a major milestone in our asset-light strategy. Going forward, in addition to this proposed divestment of SingSpring, the possible injection of SinoSpring's projects to CitySpring will enable us to fuel the growth of our strong pipeline of BOT and BOO projects and to optimize each project's full potential".

Subject to the listing of CitySpring, the Restructuring is expected to have a positive financial impact on the Company in the same period. Other details of the Restructuring required under the SGX-ST's Listing Manual are provided in Appendix 1.

By Order of the Board

Grace Goh Bee Kheng
Company Secretary

Submitted by Grace Goh Bee Kheng, Company Secretary on 9 January 2007

Appendix 1

Financial Effect of the Restructuring

The Company's interest in the assets and cashflows from the Plant will be reduced from its current 50% to 30% after the Restructuring. The book value of the Company's 50% interest in SingSpring as recorded in the Company's unaudited consolidated accounts as at 30 September 2006 is S\$4.5 million. As a result of reducing its effective interest by 20%, the Company is expected to receive a net gain over the book value, the quantum of which could be determined only upon the initial public offering of CIT's units. Accordingly, the Company will make an announcement detailing the financial effect of the Restructuring on the net tangible assets per share and earnings per share of the Hyflux group only upon the initial public offering of CIT's units.

Other Disclosures under Chapter 10 of the SGX-ST's Listing Manual

Chapter 10 of the SGX-ST's Listing Manual governs the continuing listing obligations of the Company in respect of acquisitions and divestments. Under Rule 1010 of the Listing Manual, an announcement must be made by the Company if a divestment exceeds 5% but is lower than 20% of the bases set out in Rule 1006 which describes the following computation for relative figures:

(a) **Net asset value test**

The relative figures that were computed on the basis set out in Rule 1006(a) of the Listing Manual are set out below:

The net asset value of a 20% effective interest in SingSpring as at 30 September 2006 (being the date of the latest announced and unaudited consolidated financial statements of the Company) is S\$1.8 million and constitutes approximately 0.9% of the net asset value of the Company and its subsidiaries (the "Group") of S\$210.9 million as at the same date.

(b) **Net profit test**

The relative figures that were computed on the basis set out in Rule 1006(b) of the Listing Manual are set out below:

The pro forma net profit before income tax, minority interests and extraordinary items ("Net Profits") from a 20% effective interest in SingSpring for the financial period ended 30 September 2006 was S\$1.9 million and constitutes approximately 11.9% of the Net Profits of the Group of S\$15.9 million for the same financial period.

(c) Market capitalisation test

The net gain to be realised by the Company from the Restructuring can only be ascertained when the issue price of CitySpring's units are determined subsequently. Therefore, it is not possible as of today to make a comparison of the net gain received with the market capitalisation of the Company of \$1220.9 million, based on the average weighted price of the Company's shares transacted on 4 Jan 2007 of S\$2.35. The Company will disclose such comparison when it announces the financial effect of the Restructuring on a subsequent date. It is not expected that the net gain will exceed 20% of the market capitalisation of the Company.

(d) Equity securities issued test

Not applicable as the Company will not be issuing any securities pursuant to the Restructuring.

Accordingly, the Restructuring is therefore deemed a "disclosable transaction" of the Company.

Interest of Directors and Controlling Shareholders

None of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the subject matter of the Restructuring.