Corporate Governance

INTRODUCTION

Hyflux continues to place great importance on the governance of the Company and its subsidiaries, which it believes is vital to its well being and success. Hyflux is committed to best practice corporate governance and processes that will enhance the Group's effectiveness, ensure the appropriate degree of accountability and transparency and an increase in long-term value and return to shareholders.

The Group subscribes to the Code of Corporate Governance 2005 (**"Code"**) and believes that this forms a sound platform for supporting good corporate governance practices.

This statement outlines the main corporate governance practices of the Group with specific reference made to the principles and guidelines of the Code, forming part of the Continuing Obligations set out in the Singapore Exchange Securities Trading Limited's Listing Manual.

Hyflux will continue to review and refine its practices especially in light of the Audit Committee Guidance Committee ("ACGC") guidebook, and other standards of best practice that develop in the market, consistent with the needs and the circumstances of the Group.

In developing the appropriate corporate governance practices, the Group takes into account all applicable legislation and recognised standards. Hyflux is committed to instilling and maintaining good corporate governance at all times.

The Board is pleased to report that throughout the reporting period for the financial year ended 31 December 2009, Hyflux complied with the Code's principles and guidelines.

BOARD MATTERS

BOARD'S CONDUCT OF ITS AFFAIRS:

Principle 1: Effective Board to lead and control the Company

Role of the Board

The primary role of the Board is to protect and enhance long-term shareholders value and on ensuring that the Company is run in accordance with best international management and corporate governance practices, appropriate to the needs and development of the Company.

The Board is responsible for general oversight of the Company's activities and performance and for setting the Company's overall strategic direction. It provides leadership and guidance on corporate strategy, business directions, risk policy and implementation of corporate objectives, thereby taking responsibility for the overall corporate governance of the Group.

In delegating responsibility for the day-to-day operation and leadership of the Company to the Executive Director and Chief Executive Officer and the Management team, the Board has processes and systems in place to ensure that significant issues, risks and major strategic decisions are monitored and considered at Board level.

To assist in the execution of its responsibilities, the Board has established several Board Committees namely; Audit Committee, Nominating Committee, Remuneration Committee, Risk Management Committee and Executive Committee. These Committees function within clearly defined terms of reference, which are reviewed on a regular basis.

Matters which are specifically reserved to the full Board for decision are those involving material acquisitions, disposal of assets, corporate or financial restructuring, share issuances, dividends and other returns to shareholders, conflict of interest for substantial shareholder or Director, as well as interested person transactions.

The Board held four meetings in the 2009 financial year. The Board may convene additional meetings to address any specific significant matters that may arise from time to time.

A summary of attendance by Directors at Board and Committee Meetings for the financial year ended 31 December 2009 is as follows:

	Board of Directors		**Audit Committee**		**Nominating Committee**		**Remuneration Committee**		**Risk Management Committee**	
Name	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	No. of Meetings Held	No. of Meetings Attended
Olivia Lum	4	4	4	4*	2	2[1]	2	2*	9	3*
Teo Kiang Kok	4	4	4	4	2	2	1	1[2]	9	8
Lee Joo Hai	4	4	4	4	1	1[3]	2	2	9	8
Gay Chee Cheong	4	4	4	4	2	2	2	2	NA	NA
Christopher Murugasu	4	4	NA	NA	NA	NA	2	2	9	9
Professor Tan Teck Meng	4	4	4	4	NA	NA	2	2	NA	NA
Raj Mitta	4	4	NA	NA	NA	NA	NA	NA	9	9
Ahmed Butti Ahmed #	4	4	NA	NA	NA	NA	NA	NA	NA	NA

Legend:

1 Appointed as a member of Nominating Committee on 8 May 2009

2 Resigned as a member of Remuneration Committee on 8 May 2009

3 Resigned as a member of Nominating Committee on 8 May 2009

Resigned as a Director of the Company on 1 March 2010

* Attendance by invitation

NA Not Applicable

BOARD COMPOSITION AND GUIDANCE

Principle 2: Strong and independent element on the Board

The seven members' board of the Company in office as at the date of this report is set out as follows:

Name	Board	Audit Committee	Nominating Committee	Remuneration Committee	Risk Management Committee	Executive Committee
Olivia Lum [1]	Executive Director		Member			Chairman
Teo Kiang Kok[2]	Non-Executive Independent Director	Member	Member		Member	Member
Lee Joo Hai[3]	Non-Executive Independent Director	Chairman		Member	Member	Member
Gay Chee Cheong	Non-Executive Independent Director	Member	Chairman	Member		Member
Christopher Murugasu	Non-Executive Non-Independent Director			Member	Member	
Professor Tan Teck Meng	Non-Executive Independent Director	Member		Chairman		
Raj Mitta	Non-Executive Independent Director				Chairman	

Legend:

1 Appointed as a member of Nominating Committee on 8 May 2009

2 Resigned as a member of Remuneration Committee on 8 May 2009

3 Resigned as a member of Nominating Committee on 8 May 2009

The Board considers an independent Director as one who has no relationship with the Company, its related companies or its officers that could interfere or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment.

While all the Directors have equal responsibilities for the performance of the Group, Non-Executive members of the Board exercise no management function in the Company or any of its subsidiaries. The role of Non-Executive Directors is primarily to ensure that the strategies proposed by the Management are fully discussed, vigorously examined, taking into consideration the long-term interest of the shareholders, employees, customers, suppliers and the communities in which the Group conducts its business.

The Board believes the composition of the Board requires consideration of a number of factors, including the mix in skills, abilities and expertise, the mix in the length of time Directors have had on the Board, as well as experience on other boards. The general policy of the Company is to seek to have the Board consist of at least half independent Directors.

The Board is of the view that there is currently a good balance between the Executive and Non-Executive Directors and a strong and independent element on the Board and that the present Board size and number of Board Committees facilitate effective decision making and is appropriate for the nature and scope of the Group's business and operations.

The Board consists of respected business leaders and professionals whose collective core competencies and experience are extensive, diverse and relevant to the Group. The names, qualifications and relevant skills, experience and expertise of the Directors can be found on pages 16 - 18 of this report. As evidenced by this information, the Directors bring to the Board a broad range of experience and expertise.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

Principle 3: Clear division of responsibilities at the top of the Company

The Board does not have a chairman on the Board of Directors. Responsibilities for various functions and departments in the Group are well defined. The Board is of the opinion that the process of decision making by the Board has been independent, based on collective decisions without any individual exercising any considerable concentration of power or influence.

BOARD MEMBERSHIP

Principle 4: Formal and transparent process for appointment of new directors to the Board

The Nominating Committee (**"NC"**) has been tasked by the Board to identify, select and recommend individuals with the appropriate skills, expertise and experience for appointment, thereby ensuring a balanced and effective Board at all times.

Newly appointed Directors are provided with a training and induction programme, so as to familiarise him with the Group's structure and its business.

The NC comprises of three Directors:
Mr Gay Chee Cheong (Chairman)
Mr Teo Kiang Kok
Ms Olivia Lum (Appointed on 8 May 2009)

Ms Olivia Lim was appointed as a member of NC in place of Mr Lee Joo Hai on 8 May 2009.

The primary function and duties of the NC are outlined as follows:

1. to make recommendations to the Board on all Board appointments and re-nomination having regard to the Director's contribution and performance (e.g. attendance, preparedness, participation, candour, and any other salient factors);

2. to ensure that all Directors would be required to submit themselves for re-nomination and re-election at regular intervals and at least once in every three years;

3. to determine annually whether a Director is independent, in accordance with the independence guidelines in the Code;

4. to review whether a Director is able to and has adequately carried out his duties as a Director of the Company in particular where the Director concerned has multiple board representations; and

5. to consider how the Board's performance may be evaluated and to propose objective performance criteria.

The NC conducts an annual review of Directors' independence and based on the Code's criteria for independence, the NC is of the view in respect of financial year ended 31 December 2009, Mr Teo Kiang Kok, Mr Lee Joo Hai, Mr Gay Chee Cheong, Professor Tan Teck Meng and Mr Raj Mitta, are deemed independent.

The NC has recommended the nomination of Directors retiring by rotation under the Company's Articles of Association, namely, Mr Lee Joo Hai and Mr Gay Chee Cheong.

In reviewing the nomination of the retiring directors, the NC considered the performance and contribution of each of the retiring directors, having regards not only to their attendance and to participation at Board and Board Committee meetings but also the time and efforts devoted to the Group's business and affairs.

BOARD PERFORMANCE

Principle 5: Formal assessment of the effectiveness of the Board and contributions by each Director.

The Code recommends that the NC be responsible for assessing the Board as a whole and the individual Directors' contribution. The NC believes that it is more appropriate and effective to assess the Board as a whole, bearing in mind that each member of the Board contributes in different ways to the success of the Group.

The NC in conducting the evaluation and appraisal process focuses on a set of performance criteria which includes the evaluation of the size and composition of the Board, the Board's access to information, Board processes and accountability, Board performance in relation to discharging its principal responsibilities and the Directors' standards of conduct.

The Board is of the view that the financial indicators, as set out in the Code as a guide for the evaluation of the Board and its Directors, may not be appropriate as they are more relevant as a form of measurement of the Management's performance. The NC conducted a Board performance evaluation to assess the effectiveness of the Board throughout the financial year ended 31 December 2009 and is satisfied that sufficient effort, time and attention has been given by the Directors to the affairs of the Group.

ACCESS TO INFORMATION

Principle 6: Board members to have complete, adequate and timely information

The Board has separate and independent access to senior Management of the Group, the Company Secretary and the external auditors at all times. The Directors also have unrestricted access to the Company's records and information, all minutes of meetings held by the Board and Board Committees, and management accounts to enable them to carry out their duties.

The Company Secretary attends all Board and Board Committee meetings. The Company Secretary administers, attends and prepares minutes of the Board and Board Committee meetings, and assists in ensuring that Board procedures are followed and reviewed in accordance with the Company's Articles of Association so that the Board functions effectively and the relevant rules and regulations applicable to the Company are complied with. The Company Secretary's role is to advise the Board on all governance matters, ensuring that legal and regulatory requirements as well as board policies and procedures are complied with.

Should Directors whether as a group or individually require professional advice, the Company shall upon the direction of the Board, appoint a professional advisor selected by the Group or the individual, approved by Management, to render the service. The costs of such service shall be borne by the Company.

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Principle 7: Formal and transparent procedure for fixing remuneration packages of Directors and senior management

The Remuneration Committee (**"RC"**) comprises four Directors:
Professor Tan Teck Meng (Chairman)
Mr Gay Chee Cheong
Mr Lee Joo Hai
Mr Christopher Murugasu

Mr Teo Kiang Kok resigned as a member of the RC on 8 May 2009.

The RC is committed to the principles of accountability and transparency; and to ensuring that remuneration arrangements demonstrate a clear link between reward and performance.

The RC is responsible for ensuring a formal and transparent procedure for developing policy on executive remuneration, and for fixing the remuneration packages of individual Directors and senior Management employees.

The RC's review covers all aspects of remuneration including but not limited to, Directors' fees, salaries, allowances, bonus, employees share options and benefits in kind and specific remuneration package for each Director.

In structuring a compensation framework for Executive Director and senior Management employees, the RC seeks to link a proportion of the compensation to the Group's performance. Its recommendations are made in consultation with the Executive Committee and submitted for endorsement by the Board. No Director is involved in deciding his own remuneration. The RC, when deemed necessary, may obtain expert advice with regard to remuneration matters.

LEVEL AND MIX OF REMUNERATION

Principle 8: The level of remuneration for Directors should be adequate, not excessive, and linked to performance.

The remuneration policy of the Company is to provide compensation packages at market rates, which reward performance and attract, retain and motivate Directors and members of the senior Management team.

The Executive Director does not receive Directors' fees. The Executive Director and senior Management employees' remuneration packages are based on service contracts and their remuneration is determined having due regard to the performance of the individuals, the Group as well as market trends.

Non-Executive Directors are paid yearly Directors' fees of an agreed amount based on their contributions, taking into account factors such as effort and time spent, responsibilities of the Directors and the need to pay competitive fees to attract, motivate and retain the Directors.

DISCLOSURE ON REMUNERATION

Principle 9: Clear disclosure of remuneration policy, level and mix of remuneration, and the procedure for setting the remuneration

An appropriate and attractive level of remuneration has been set to attract, retain and motivate Directors and employees. The remuneration package for executive director and employees consists of both fixed and variable components. The variable component is determined based on the performance of the individual employee and the Group's performance in the relevant financial year. Annual increments and adjustments to remuneration are reviewed and approved taking into account the outcome of the annual appraisal of the employees.

Non-Executive Directors are paid Directors' fees that are subject to shareholders' approval at the Company's Annual General Meeting (**"AGM"**). The RC recommends a total Directors' fees of $ 576,667 be paid to Non-Executive Directors for the financial ended 31 December 2009. This will be tabled for the shareholders' approval at the forthcoming AGM.

Details of the Directors receiving remuneration from the Group for the year ended 31 December 2008 and 2009 are set out as follows:

Remuneration band	Number of Directors 2009	2008
Between S$1,000,000 to S$1,250,000	1	0
Between S$250,000 to S$1,000,000	0	1
Below S$250,000	7	7

The following table sets out the summary compensation table for Directors and top five key executives for the financial year ended 31 December 2009:

	Salary	Bonus	Fees	Employees' Share Option Scheme	Allowances and other benefits	Total
DIRECTORS						
Between S$1,000,000 to S$1,250,000						
Olivia Lum	37%	47%	0%	15%	1%	100%
Below S$250,000						
Gay Chee Cheong	0%	0%	90%	10%	0%	100%
Lee Joo Hai	0%	0%	89%	11%	0%	100%
Teo Kiang Kok	0%	0%	87%	13%	0%	100%
Christopher Murugasu	0%	0%	100%	0%	0%	100%
Raj Mitta	0%	0%	100%	0%	0%	100%
Professor Tan Teck Meng	0%	0%	100%	0%	0%	100%
Ahmed Butti Ahmed (Resigned on 1 March 2010)	0%	0%	100%	0%	0%	100%
TOP FIVE KEY EXECUTIVES						
Between S$750,000 to S$1,000,000						
Sam Ong	38%	39%	0%	18%	5%	100%
Between S$500,000 to S$750,000						
Cho Wee Peng	54%	28%	0%	18%	0%	100%
Winnifred Heap	65%	11%	0%	24%	0%	100%
Fong Chun Hoe	50%	34%	0%	16%	0%	100%
Below S$500,000						
Foo Hee Kiang	83%	9%	0%	0%	8%	100%

Immediate family members of Directors

There are no immediate family members of Directors or controlling shareholders in employment with the Group and whose remuneration exceeds S$150,000 during financial year ended 31 December 2009.

ACCOUNTABILITY

Principle 10: Board should present a balanced and understandable assessment of the Company's performance, position and prospects

The Board promotes timely and balanced disclosure of all material matters concerning the Group. It updates shareholders on the operations and financial position of the Group through quarterly, half-yearly and full-year results announcements as well as timely announcements of other matters as prescribed by the SGX-ST's Listing Manual requirements and other relevant rules and regulations.

The Board is accountable to shareholders for the management of the Group and the Management is accountable to the Board by providing the Board with the necessary financial information for the discharge of its duties.

AUDIT COMMITTEE

Principle 11: Establishment of Audit Committee with written terms of reference

The Audit Committee (**"AC"**) comprises the following members:
Mr Lee Joo Hai (Chairman)
Mr Gay Chee Cheong
Mr Teo Kiang Kok
Professor Tan Teck Meng

In accordance with the principles in the Code, the AC comprises Non-Executive Directors, majority of whom are independent. The members of AC, collectively, have expertise and extensive experience in legal, accounting, financial management and business, and are qualified to discharge the AC's responsibilities.

The primary functions of the AC are as follows:

1. assists the Board in discharging its statutory responsibilities on financial and accounting matters;

2. reviews the financial and operating results and accounting policies of the Group;

3. reviews significant financial reporting issues and judgments relating to financial statements for each financial year, interim and annual results announcement before submission to the Board for approval;

4. reviews the adequacy of the Company's internal control (financial and operational) and risk management policies and systems established by the Management;

5. reviews the audit plans and reports of the external and internal auditors and considers the effectiveness of the actions taken by Management on the auditors' recommendations;

6. appraises and reports to the Board on the audits undertaken by the external and internal auditors, the adequacy of the disclosure of information, and the appropriateness and quality of the system of management and internal controls;

7. reviews the independence of external auditors annually and considers the appointment or re-appointment of external auditors and matters relating to the resignation or removal of the auditors and approves the remuneration and terms of engagement of the external auditors; and

8. reviews interested person transactions, as defined in the Listing Manual of the SGX-ST.

In fulfilling its responsibilities, the AC receives regular reports from the Management. The AC has full access to and co-operation of the Management and meets with KPMG LLP in private at least once a year, and more frequently if necessary.

The AC has explicit authority within the scope of its responsibilities to seek any information it requires or investigate any matter within its terms of reference. The AC has adequate resources to enable it to discharge its responsibilities properly.

The Group has put in place a confidential communication programme as endorsed by the AC. Employees may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting or other matters and to ensure that arrangements are in place for the independent investigations of such matters and for appropriate follow up actions. The details of the confidential communication programme and arrangements have been made available to all employees.

INTERNAL CONTROLS

Principle 12: The Board to ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the Company's assets

The AC is fully aware of the need to put in place a system of internal controls within the Group to safeguard the shareholders' interests and the Group's assets, and to manage risks. The system is intended to provide reasonable but not absolute assurance against material misstatements or loss, and to safeguard assets and ensure maintenance of proper accounting records, reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risks.

The Group regularly reviews and improves its business and operational activities to identify areas of significant business risks as well as taking appropriate measures to control and mitigate these risks. The Group reviews all significant control policies and procedures and highlights all significant matters to the AC and the Board. The financial risk management objectives and policies are outlined in the financial statements. Risk Management alone does not guarantee that business undertakings will not fail. However, by identifying and managing risks that may arise, the Group is in a position to make more informed decisions and will benefit from a better balance between risk and reward. This will assist in protecting and creating shareholders' value.

Based on the information provided to the AC, it is not aware of any issues causing it to believe that the system of internal controls and risk management as inadequate.

INTERNAL AUDIT

Principle 13: Setting up independent internal audit function

The Group has put in a place a dedicated team of internal auditors. The internal audit function includes reviewing the effectiveness of the material internal controls of the Group. The Internal Audit Director reports directly to the Chairman of the AC and has an appropriate standing within the Group. The AC meets with the Internal Auditor in private at least once a year. The AC also ensures that the internal audit function is adequately resourced, and reviews annually the adequacy of the internal audit function. The internal audit team meets the standards set by nationally and internationally recognized professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

Within this framework, the internal audit function provides reasonable assurance that the risks incurred by the Group in each major activity will be identified, analysed and managed by Management. The Internal Auditor will also make recommendations to enhance the effectiveness and security of the Group's operations.

COMMUNICATION WITH SHAREHOLDERS

Principle 14: Regular, effective and fair communication with shareholders

Principle 15: Shareholders' participation at AGM

The Company is committed to regular and proactive communication with its shareholders. It aims to provide shareholders with clear, balanced useful and material information on a timely basis to ensure that shareholders receive a balanced and up-to-date view of the Group's performance and business.

Where there is inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly as soon as practicable. Communication is made through:

1. annual reports that are prepared and issued to all Shareholders. The Board makes every effort to ensure that the annual report includes all relevant information about the Group, including future development and other disclosures required by the Companies' Act, Chapter 50, and Singapore Statements of Accounting Standards;

2. quarterly and full-year financial statements comprising a summary of the financial information and affairs of the Group for the relevant period;

3. explanatory memoranda for AGM and extraordinary general meetings;

4. press releases on major developments of the Group;

5. disclosures to the SGX-ST via SGXNET; and

6. the Group's website at http://www.hyflux.com at which shareholders can access information on the Group at all times.

In addition, shareholders are encouraged to attend the Company's AGM to ensure a high level of accountability and to stay informed of the Group's strategies and growth.

In accordance with the principles in the Code, the full Board of Directors and the external auditor in office are required to attend the Company's AGM and will address any question raised at the meeting. The Group fully supports the Code's principle to encourage active shareholder participation.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee (**"RMC"**) comprises the following members:-
Mr Raj Mitta (Chairman)
Mr Christopher Murugasu
Mr Lee Joo Hai
Mr Teo Kiang Kok

The functions of the RMC are as follows:

1. to review with Management, and, where needed, with external consultants on areas of risk that may affect the viability and smooth operations of the Company, as well as Management's risk mitigation efforts, with the view of safeguarding shareholder's interest and Group assets;

2. to direct and work with Management to develop and review policies and processes to address and manage identified areas of risk in a systematic and structured manner;

3. to make recommendations to the Board in relation to business risks that may affect the Company, as and when these may arise;

4. to review new investments; and

5. to perform any other functions as may be agreed by the Board.

EXECUTIVE COMMITTEE

The Executive Committee is an executive arm of the Board and the Board Committees.

The members of the Executive Committee are:-
Ms Olivia Lum (Chairman)
Mr Lee Joo Hai
Mr Teo Kiang Kok
Mr Gay Chee Cheong

The main functions of the Executive Committee are:

1. to make recommendations to the Board and the Board Committees on the businesses and the affairs of the Company and its subsidiaries and affiliates;

2. to participate in the deliberations of the Board and the Board Committees as appropriate, subject to such direction as the Chairman of the Board or the Board Committee may give;

3. to implement the decisions of the Board and the Board Committees; and

4. to undertake assignments as the Board or any Board Committee may direct from time to time.

MANAGEMENT COMMITTEE

The members of the Management Committee for financial year ending 31 December 2009 are:
Ms Olivia Lum (Chairman)
Mr Sam Ong
Mr Cho Wee Peng
Ms Winnifred Heap
Mr Fong Chun Hoe
Mr Foo Hee Kiang

DEALING IN SECURITIES

The Company has adopted its own internal compliance code pursuant to the SGX-ST's best practices on dealings in securities and these are applicable to all its officers in relation to their dealings in the Company's securities. Its officers are advised not to deal in the Company's shares during the period commencing two weeks or one month before the announcement of the Company's interim or full-year results respectively, or if they are in possession of unpublished price-sensitive information of the Company. In addition, its directors and officers are expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period.

The Group has complied with the Best Practices Guide on Securities Transactions issued by the Singapore Exchange.

MATERIAL CONTRACTS

There are no material contracts of the Company or its subsidiaries involving the interests of the Group CEO, each Director or controlling shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.

INTERESTED PARTY TRANSACTION

The Group has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and that the transactions are at arm's length basis. All interested person transactions are subject to review by the AC to ensure compliance with the established procedures.