

Listed companies must provide the information required by Appendix 7.2 of the Listing Manual. Adequate disclosure should be given to explain any material extraordinary item either as a footnote of the material extraordinary item or in the "Review of the performance of the group".

## HYFLUX LTD

### Third Quarter Financial Statement

#### PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

##### 1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

	1 Jan 2004 to 30 Sep 2004 \$'000	1 Jan 2003 to 30 Sep 2003 \$'000	Increase/ (Decrease) %	1 Jul 2004 to 30 Sep 2004 \$'000	1 Jul 2003 to 30 Sep 2003 \$'000	Increase/ (Decrease) %
Revenue	50,766	53,334	(5%)	20,805	15,968	30%
Other operating income/(expense)	300	318	(6%)	(142)	309	nm
Raw and consumable materials	(19,471)	(24,291)	(20%)	(7,709)	(7,255)	6%
Personnel expenses	(6,480)	(5,020)	29%	(2,926)	(1,560)	88%
Depreciation and amortisation	(2,469)	(1,768)	40%	(783)	(537)	46%
Other operating expenses	(4,379)	(9,652)	(55%)	(1,861)	(3,788)	(51%)
Profit from operations	18,267	12,921	41%	7,384	3,137	135%
Financial (expenses)/income – net	(205)	(136)	51%	(73)	122	nm
Profit before share of results of associate	18,062	12,785	41%	7,311	3,259	124%
Share of results of associate	-	(56)	(100%)	-	(25)	(100%)
Profit before taxation and minority interests	18,062	12,729	42%	7,311	3,234	126%
Taxation	(601)	(571)	5%	(215)	-	nm
Profit after taxation and before minority interests	17,461	12,158	44%	7,096	3,234	119%
Minority interests	(1,441)	106	nm	(437)	20	nm
Net profit for the period	16,020	12,264	31%	6,659	3,254	105%

nm means not meaningful.

**1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year**

	<b>Group 30 Sep 04 \$'000</b>	<b>Group 31 Dec 03 \$'000</b>	<b>Company 30 Sep 04 \$'000</b>	<b>Company 31 Dec 03 \$'000</b>
<b><u>SHARE CAPITAL AND RESERVES</u></b>				
Share capital	15,689	15,624	15,689	15,624
Share premium	32,485	31,606	32,485	31,606
Translation reserve	(849)	(667)	-	-
Revenue reserve	53,183	38,916	27,146	31,155
Shareholders' equity	<u>100,508</u>	<u>85,479</u>	<u>75,320</u>	<u>78,385</u>
Minority interests	3,224	1,055	-	-
<b>Total capital and reserves</b>	<u>103,732</u>	<u>86,534</u>	<u>75,320</u>	<u>78,385</u>
<b><u>NON-CURRENT ASSETS</u></b>				
Property, plant and equipment	25,716	15,120	1,499	1,110
Construction in progress	58,466	10,071	-	-
Investment in subsidiaries	-	-	26,099	7,269
Investment in associate	-	351	-	-
Long-term investments	3,432	3,432	-	-
Intangible assets	13,702	9,117	1,778	99
Due from subsidiaries (non-trade)	-	-	32,242	40,055
<b>Total non-current assets</b>	<u>101,316</u>	<u>38,091</u>	<u>61,618</u>	<u>48,533</u>
<b><u>CURRENT ASSETS</u></b>				
Cash and bank balances	7,989	5,389	348	248
Fixed deposits	33,571	26,505	3,074	10,633
Inventories	6,864	7,982	1,234	1,077
Contracts work-in-progress	25,223	15,759	-	-
Trade receivables	22,300	19,517	14,002	13,307
Other receivables, deposits and prepayments	13,380	2,915	208	63
Due from subsidiaries (trade)	-	-	-	10,215
<b>Total current assets</b>	<u>109,327</u>	<u>78,067</u>	<u>18,866</u>	<u>35,543</u>
<b><u>CURRENT LIABILITIES</u></b>				
Trade payables	20,954	20,425	1,081	1,504
Other payables and accruals	1,632	1,353	-	59
Provision for income tax	1,162	595	-	-
Provision for warranty	50	50	-	-
Provision for directors' fees	135	243	135	243
Hire purchase obligations, current	-	32	-	-
Finance lease obligations, current	14	14	-	-
Due to subsidiaries (trade)	-	-	1,412	-
Short term loans	2,048	2,291	-	-
Long term loans, current	2,088	1,579	1,767	1,579
<b>Total current liabilities</b>	<u>28,083</u>	<u>26,582</u>	<u>4,395</u>	<u>3,384</u>
<b>Net current assets</b>	81,244	51,485	14,471	32,159

**NON-CURRENT LIABILITIES**

Finance lease obligations, non-current	39	48	-	-
Deferred tax liabilities	288	271	-	-
Long term loan, non-current	78,501	2,723	769	2,307
<b>Total non-current liabilities</b>	<b>78,828</b>	<b>3,042</b>	<b>769</b>	<b>2,307</b>
<b>Net assets</b>	<b>103,732</b>	<b>86,534</b>	<b>75,320</b>	<b>78,385</b>

**1(b)(ii) Aggregate amount of group's borrowings and debt securities****Amount repayable in one year or less, or on demand**

As at 30/9/2004 \$'000		As at 31/12/2003 \$'000	
Secured	Unsecured	Secured	Unsecured
335	3,815	46	3,870

**Amount repayable after one year**

As at 30/9/2004 \$'000		As at 31/12/2003 \$'000	
Secured	Unsecured	Secured	Unsecured
77,771	769	48	2,723

**Details of any collateral**

As at 30/9/04, underlying assets relate to assets from non-recourse project financing and finance leases. As at 31/12/03, underlying assets relate to finance leases.

**1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year**

	<b>1 Jul 2004 to 30 Sep 2004 \$'000</b>	<b>1 Jul 2003 to 30 Sep 2003 \$'000</b>
<b>Cash Flows from operating activities</b>		
Profit before tax	7,311	3,234
Adjustments:		
Share of results of associate	-	25
Amortisation of intangible assets	238	120
Depreciation of property, plant and equipment	545	417
Loss on disposal of fixed assets	-	51
Interest expense	200	52
Interest income	(126)	(174)
Operating profit before working capital changes	<u>8,168</u>	<u>3,725</u>
Inventories	(623)	(2,482)
Contracts work-in-progress	(6,017)	13,185
Trade receivables	(2,200)	(3,877)
Other receivables, deposits and prepayments	(4,411)	1,673
Trade payables	1,230	(2,801)
Other payables and accruals	1,171	(420)
Bills payable	(1,350)	-
Cash (used in)/generated from operations	<u>(4,032)</u>	<u>9,003</u>
Interest paid	(200)	(52)
Income tax (paid)/received	(2)	39
Net cash (used in)/generated from operating activities	<u><b>(4,234)</b></u>	<u><b>8,990</b></u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(2,458)	(517)
Construction in progress	(17,304)	-
Acquisition of intangible assets	(2,314)	(6,187)
Interest received	126	174
Long term receivable	-	(440)
Net cash used in investing activities	<u><b>(21,950)</b></u>	<u><b>(6,970)</b></u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of new shares	520	287
Payment of hire purchase obligations	-	(6)
Payment of finance lease obligations	(2)	(57)
Payment of short term loans	(13,180)	(436)
Proceeds from long term loans	(285)	-
Changes in minority interest of a subsidiary	-	(355)
Changes in associate's interest	-	15
Net cash used in financing activities	<u><b>(12,947)</b></u>	<u><b>(552)</b></u>
<b>Net changes in cash and cash equivalents</b>	<b>(39,131)</b>	<b>1,468</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>80,869</b>	<b>32,101</b>
Effect of exchange rate changes	(178)	(499)
<b>Cash and cash equivalents at end of the period</b>	<u><b>41,560</b></u>	<u><b>33,070</b></u>

**1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year**

<b>Group</b>	<b>Share capital \$'000</b>	<b>Share premium \$'000</b>	<b>Translation reserve \$'000</b>	<b>Revenue reserve \$'000</b>	<b>Total \$'000</b>
<b>Balance at 1 January 2004</b>	15,624	31,606	(667)	38,916	85,479
Issue of shares for cash	65	879	-	-	944
Issue of bonus shares	-	-	-	-	-
Expenses on shares issuance	-	-	-	-	-
Foreign currency translation differences	-	-	(182)	-	(182)
Net profit for the period	-	-	-	16,020	16,020
Dividends	-	-	-	(1,753)	(1,753)
<b>Balance at 30 September 2004</b>	<b>15,689</b>	<b>32,485</b>	<b>(849)</b>	<b>53,183</b>	<b>100,508</b>
<b>Balance at 1 July 2004</b>	15,658	31,995	(670)	46,524	93,507
Issue of shares for cash	31	490	-	-	521
Foreign currency translation differences	-	-	(179)	-	(179)
Net profit for the period	-	-	-	6,659	6,659
<b>Balance at 30 September 2004</b>	<b>15,689</b>	<b>32,485</b>	<b>(849)</b>	<b>53,183</b>	<b>100,508</b>
<b>Balance at 1 January 2003</b>	11,809	22,378	(647)	20,375	53,915
Issue of shares for cash	628	11,701	-	-	12,329
Expenses on shares issuance	-	(8)	-	-	(8)
Foreign currency translation differences	-	-	(407)	-	(407)
Net profit for the period	-	-	-	12,264	12,264
Dividends	-	-	-	(969)	(969)
<b>Balance at 30 September 2003</b>	<b>12,437</b>	<b>34,071</b>	<b>(1,054)</b>	<b>31,670</b>	<b>77,124</b>
<b>Balance at 1 July 2003</b>	12,422	33,799	(555)	28,416	74,082
Issue of shares for cash	15	272	-	-	287
Foreign currency translation differences	-	-	(499)	-	(499)
Net profit for the period	-	-	-	3,254	3,254
<b>Balance at 30 September 2003</b>	<b>12,437</b>	<b>34,071</b>	<b>(1,054)</b>	<b>31,670</b>	<b>77,124</b>

## Company

<b>Balance at 1 January 2004</b>	15,624	31,606	-	31,155	78,385
Issue of shares for cash	65	879	-	-	944
Net profit for the period	-	-	-	(2,256)	(2,256)
Dividends	-	-	-	(1,753)	(1,753)
<b>Balance at 30 September 2004</b>	<b>15,689</b>	<b>32,485</b>	<b>-</b>	<b>27,146</b>	<b>75,320</b>
<b>Balance at 1 July 2004</b>	15,658	31,995	-	28,306	75,959
Issue of shares for cash	31	490	-	-	521
Net profit for the period	-	-	-	(1,160)	(1,160)
<b>Balance at 30 September 2004</b>	<b>15,689</b>	<b>32,485</b>	<b>-</b>	<b>27,146</b>	<b>75,320</b>
<b>Balance at 1 January 2003</b>	11,809	22,378	-	13,859	48,046
Issue of shares for cash	628	11,701	-	-	12,329
Expenses on shares issuance	-	(8)	-	-	(8)
Net profit for the period	-	-	-	9,386	9,386
Dividends	-	-	-	(969)	(969)
<b>Balance at 30 September 2003</b>	<b>12,437</b>	<b>34,071</b>	<b>-</b>	<b>22,276</b>	<b>68,784</b>
<b>Balance at 1 July 2003</b>	12,422	33,799	-	16,486	62,707
Issue of shares for cash	15	272	-	-	287
Net profit for the period	-	-	-	5,790	5,790
<b>Balance at 30 September 2003</b>	<b>12,437</b>	<b>34,071</b>	<b>-</b>	<b>22,276</b>	<b>68,784</b>

**1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year**

- a. 607,250 new ordinary shares of \$0.05 each were issued pursuant to options exercised under the Hyflux Employee Shares Options Scheme.
- b. As at 30 September 2004, the outstanding and unexercised options granted under the Scheme were 15,955,475 (30 September 2003: 11,515,280)

**2. Whether the figures have been audited, or reviewed and in accordance with which standard (e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard)**

The figures have not been audited or reviewed.

3. **Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)**

Not applicable

4. **Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied**

The same accounting policies and methods of computation are being followed as in the audited financial statements for year ended 31 December 2003.

5. **If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change**

Not applicable.

6. **Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends**

	Jan – Sep 2004 cents	Jan – Sep 2003 cents	Jul – Sep 2004 cents	Jul – Sep 2003 cents
<b>Earnings per ordinary share after deducting any provision for preference dividends were:</b>				
Based on the weighted average number of ordinary shares in issue; and	5.12	3.95	2.12	1.05
On a fully diluted basis	4.99	3.89	2.07	1.03

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year**

	30 Sep 2004 cents	31 Dec 2003 cents
<b>Net asset value per ordinary share of:</b>		
Group	32.0	27.4
Company	24.0	25.1

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow,**

**working capital, assets or liabilities of the group during the current financial period reported on**

Income Statement

For nine months ended 30 September

Net profit for the 9 months ended 30 September 2004 rose by 31% over the same period last year to S\$16.0 million on sales of S\$50.8 million compared to S\$53.3 million last period.

For the 9 months ended 30 September 2004, industrial sales doubled from S\$21.4 million to S\$43.4 million with most of the growth coming from China. Such sales accounted for 85% of total revenue. The balance of the sales of S\$7.0 million was from consumer products. In contrast, sales for the same period last year comprised municipal sales of S\$32.0 million, which accounted for 60% of last year's sales while the remaining 40% was from industrial sales. In line with the higher industrial sales, gross margin for the 9 months ended 30 September 2004 strengthened to 62%, as compared to 54% last year.

Personnel expenses were higher by 29% due to the impact of commencement of operations of two new subsidiaries and additional sales and technical support personnel for the development of new markets. This is offset by lower operating expenses as compared to the previous corresponding period where civil work and subcontract cost for municipal contracts constituted a significant part of such expenses. Higher depreciation and amortization expenses were in line with the larger fixed and intangible assets.

Overall, net profit was up by 31% to S\$16.0 million. Net margin improved by 9% to 32%. Earnings per share was up by 30% to 5.12 cents.

For three months ended 30 September

For the 3 months ended 30 September 2004, sales of S\$20.8 million were 30% higher compared to 3Q03, mainly due to higher industrial sales from China. In contrast, for the same period last year, municipal sales comprised S\$7.0 million and accounted for 44% of total revenue. For the quarter ended 30 September 2004, gross margin improved by 8% to 63%.

Personnel expenses increased by 88% to S\$2.9 million due to the start up of two new subsidiaries and the additional sales and technical support personnel for the development of new markets, offset by lower operating expenses in 3Q04 by S\$1.9 million due to less expenses on civil and subcontract work .

Overall, net profit doubled to S\$6.7 million with a net margin of 32%. Earnings per share doubled to 2.12 cents, compared to 1.05 cents for the same period last year.

Balance Sheet

Group

Equity for the group strengthened from S\$85.5 million in the beginning of the year to S\$100.5 million as at 30 September 2004, mainly due to profit generated from operations, partially offset by dividend payment.

Working capital increased by S\$29.8 million due largely to increases in cash and fixed deposits by S\$9.7 million and contracts work-in-progress due to volume increases.

Total non-current assets was up by S\$63.2 million mainly due to increase in construction in progress for the seawater desalination plant of S\$48.4 million, purchase of new office building and leasehold improvements of about S\$10.6 million and capitalization of development activities of S\$4.6 million.

During the period, S\$78.0 million of project financing loan was drawn down for the capital expenditure of the seawater desalination plant. This resulted in debt to equity ratio of 0.80. Excluding the project financing loan, the debt to equity ratio of the group was 0.04.

Net Asset value of the group up by 16.8% to 32.0 cents as compared to 27.4 cents last year.

#### Company

Equity for the company of S\$75.3 million was lower by S\$3.1 million as compared to last year mainly due to operating loss for the nine months period and dividend payment, partially offset by increases in the share premium account.

Non-current assets increased by 27% to S\$61.6 million primarily due to increases in equity in subsidiary and purchase of technology and partially offset by payments from subsidiaries.

Net working capital decreased by S\$17.7 million mainly due to settlement of intercompany balances by subsidiaries and lower cash balance from repayment of long term debt.

#### Cashflow Statement

For the three months ended 30 September 2004, net cash used for operations amounted to S\$4.2 million mainly due to higher contracts work in progress and higher receivables in line with higher sales. On a quarter to quarter basis, working capital changes may vary due to timing in completion of projects and payments by customers and to suppliers. Cash used in financing activities was S\$12.9 million, largely for the repayment of short term loans during the period. Cash used in investing activities of S\$22.0 million was primarily for the purchase of new office building, capital expenditure of seawater desalination plant at Tuas and development expenditure. Overall, the group cash position strengthened from S\$33.0 million to S\$41.6 million as at 30 September 2004.

#### **9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results**

The group continues to believe that the target to grow sales and profit at an average CAGR of 30% over the 5 year-period from 2004 – 2008 is achievable.

#### **10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months**

The group is currently constructing Singapore's first seawater desalination plant (costing about S\$ 200 million) which is due for completion in 2005. Construction of the project is progressing as scheduled.

The company has mandated Deutsche Bank to manage the securitization of the future cash flow of SingSpring Pte Ltd, a wholly owned subsidiary of the Company and the developer and owner of a seawater desalination plant. The proposed securitization is subject, amongst other things, to PUB approval and to market pricing.

The competitive conditions in the Singapore water treatment industry are getting more keen with more players trying to get a foothold in this sector, which may in turn depress the margins.

China will continue to be a growth market for us, especially in the pharmaceutical, biotechnology and the chemical and petrochemical segments. We expect Middle East to be our next growth area.

## **11. Dividend**

### ***(a) Current Financial Period Reported On***

Any dividend recommended for the current financial period reported on? None

### ***(b) Corresponding Period of the Immediately Preceding Financial Year***

Any dividend declared for the corresponding period of the immediately preceding financial year? None

Name of Dividend  
Dividend Type  
Dividend Rate  
Par value of shares  
Tax Rate

### **z(c) Date payable**

Not applicable

### **(d) Books closure date**

Not applicable....

[Give a negative statement if not applicable]

## **12. If no dividend has been declared/recommended, a statement to that effect**

Not applicable

## **PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT (This part is not applicable to Q1, Q2, Q3 or Half Year Results)**

- 13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year**

<Place tabular results and/or notes here>

- 14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments**

- 15. A breakdown of sales**

<Refer to Para 15 of Appendix 7.2 for the required details. Place tabular results and/or notes here>

- 16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year**

Total Annual Dividend (*Refer to Para 16 of Appendix 7.2 for the required details*)

	Latest Full Year ()	Previous Full Year ()
Ordinary		
Preference	0	0
Total:		

**BY ORDER OF THE BOARD**

Lim Kim Seng  
Company Secretary  
10/11/2004