

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

Second 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 Jun 2004 \$'000	1 Jan 2003 to 30 Jun 2003 \$'000	Increase/ (Decrease) %	1 Apr 2004 to 30 Jun 2004 \$'000	1 Apr 2003 to 30 Jun 2003 \$'000	Increase/ (Decrease) %
Revenue	29,961	37,366	(20%)	17,856	26,652	(33%)
Other non-operating income/(expense)	443	9	nr	264	(31)	nr
Raw and consumable materials	(11,762)	(17,036)	(31%)	(7,729)	(12,578)	(39%)
Personnel expenses	(3,553)	(3,046)	17%	(1,921)	(1,115)	72%
Depreciation and amortisation	(1,687)	(1,231)	37%	(911)	(642)	42%
Other operating expenses	(2,519)	(6,278)	(60%)	(1,347)	(5,413)	(75%)
Profit from operations	10,883	9,784	11%	6,212	6,873	(10%)
Financial expenses – net	(132)	(258)	(49%)	(44)	(173)	(75%)
Profit before share of results of associate	10,751	9,526	13%	6,168	6,700	(8%)
Share of results of associate	-	(31)	(100%)	3	(31)	nr
Profit before taxation and minority interests	10,751	9,495	13%	6,171	6,669	(7%)
Taxation	(386)	(571)	(32%)	(386)	(6)	nr
Profit after taxation and before minority interests	10,365	8,924	16%	5,785	6,663	(13%)
Minority interests	(1,004)	86	nr	390	(81)	nr
Net profit for the period	9,361	9,010	4%	6,175	6,582	(6%)

nr 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

	Group 30 Jun 04 \$'000	Group 31 Dec 03 \$'000	Company 30 Jun 04 \$'000	Company 31 Dec 03 \$'000
<u>SHARE CAPITAL AND RESERVES</u>				
Share capital	15,658	15,624	15,658	15,624
Share premium	31,995	31,606	31,995	31,606
Translation reserve	(670)	(667)	-	-
Revenue reserve	46,524	38,916	28,306	31,155
Shareholders' equity	<u>93,507</u>	<u>85,479</u>	<u>75,959</u>	<u>78,385</u>
Minority interests	2,805	1,055	-	-
Total capital and reserves	<u>96,312</u>	<u>86,534</u>	<u>75,959</u>	<u>78,385</u>
<u>NON-CURRENT ASSETS</u>				
Property, plant and equipment	23,821	15,120	1,364	1,110
Construction in progress	41,161	10,071	-	-
Investment in subsidiaries	-	-	7,899	7,269
Investment in associate	-	351	-	-
Long-term investments	3,432	3,432	-	-
Intangible assets	11,627	9,117	145	99
Due from subsidiaries (non-trade)	-	-	54,207	40,055
Total non-current assets	<u>80,041</u>	<u>38,091</u>	<u>63,615</u>	<u>48,533</u>
<u>CURRENT ASSETS</u>				
Cash and bank balances	22,396	5,389	205	248
Fixed deposits	58,473	26,505	2,093	10,633
Inventories	6,241	7,982	1,502	1,077
Contracts work-in-progress	19,206	15,759	-	-
Trade receivables	20,101	19,517	13,455	13,307
Other receivables, deposits and prepayments	8,968	2,915	464	63
Due from subsidiaries (trade)	-	-	-	10,215
Total current assets	<u>135,385</u>	<u>78,067</u>	<u>17,719</u>	<u>35,543</u>
<u>CURRENT LIABILITIES</u>				
Trade payables	19,724	20,425	1,172	1,504
Other payables and accruals	526	1,353	-	58
Provision for income tax	949	595	-	-
Provision for warranty	50	50	-	-
Provision for directors' fees	70	243	-	243
Due to subsidiaries (trade)	-	-	1,345	-
Hire purchase obligations, current	-	32	-	-
Finance lease obligations, current	14	14	-	-
Trust receipts	1,350	-	-	-
Short term loans	15,228	2,291	-	-
Long term loans, current	1,981	1,579	1,704	1,579
Total current liabilities	<u>39,892</u>	<u>26,582</u>	<u>4,221</u>	<u>3,384</u>
Net current assets	95,493	51,485	13,498	32,159

NON-CURRENT LIABILITIES

Hire purchase obligations, non-current	-	-	-	-
Finance lease obligations, non-current	41	48	-	-
Deferred tax liabilities	288	271	-	-
Long term loan, non-current	78,893	2,723	1,154	2,307
Total non-current liabilities	79,222	3,042	1,154	2,307
Net assets	96,312	86,534	75,959	78,385

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

As at 30/6/2004		As at 31/12/2003	
\$'000		\$'000	
Secured	Unsecured	Secured	Unsecured
241	18,332	46	3,870

Amount repayable after one year

As at 30/6/2004		As at 31/12/2003	
\$'000		\$'000	
Secured	Unsecured	Secured	Unsecured
77,773	1,161	48	2,723

Details of any collateral

As of 30/6/2004, underlying assets relate to assets from non-recourse project financing. As of 31/12/2003, 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

	1 Apr 2004 to 30 Jun 2004 \$'000	1 Apr 2003 to 30 Jun 2003 \$'000
Cash flows from operating activities		
Profit before tax and minority interests	6,171	6,669
Adjustments:		
Share of results of associate	(3)	31
Loss on disposal of associate	119	-
Amortisation of intangible assets	257	253
Depreciation of property, plant and equipment	655	390
Interest expense	122	264
Interest income	(79)	(91)
Operating profit before working capital changes	7,242	7,516
Inventories	1,347	(1,322)
Contracts work-in-progress	(2,102)	2,314
Trade receivables	(1,171)	(11,578)
Other receivables, deposits and prepayments	(2,796)	1,049
Trade payables	4,756	11,802
Other payables and accruals	(1,278)	2,373
Trust receipts	157	-
Cash generated from operations	6,155	12,154
Interest paid	(122)	(265)
Income tax paid	(42)	(365)
Net cash generated from operating activities	5,991	11,524
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,627)	(1,696)
Construction in progress	(15,311)	(1,931)
Proceeds from disposal of plant and equipment	1	(1,811)
Acquisition of intangible assets	(1,756)	-
Interest received	79	91
Net cash used in investing activities	(26,614)	(5,347)
Cash flows from financing activities		
Proceeds from issue of new shares	111	89
Payments of dividends	(1,753)	(969)
Minority interest's contribution	755	-
Payment of hire purchase obligations	(20)	(10)
Payment of finance lease obligations	(4)	(3)
Proceeds from (payment of) short term loans	13,000	(19)
Proceeds from long term loans	44,234	-
Changes in minority interest of a subsidiary	-	(870)
Net cash generated from/(used in) financing activities	56,323	(1,782)
Net increase in cash and cash equivalents	35,700	4,395
Cash and cash equivalents at beginning of the period	45,080	28,185
Effect of exchange rate changes	89	(479)
Cash and cash equivalents at end of the period	80,869	32,101

**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**

Group	Share capital \$'000	Share premium \$'000	Translation reserve \$'000	Revenue reserve \$'000	Total \$'000
Balance at 1 January 2004	15,624	31,606	(667)	38,916	85,479
Issue of shares for cash	34	389	-	-	423
Foreign currency translation differences	-	-	(3)	-	(3)
Net profit for the period	-	-	-	9,361	9,361
Dividends	-	-	-	(1,753)	(1,753)
Balance at 30 June 2004	15,658	31,995	(670)	46,524	93,507
Balance at 1 April 2004	15,651	31,892	(933)	42,102	88,712
Issue of shares for cash	7	103	-	-	110
Foreign currency translation differences	-	-	263	-	263
Net profit for the period	-	-	-	6,175	6,175
Dividends	-	-	-	(1,753)	(1,753)
Balance at 30 June 2004	15,658	31,995	(670)	46,524	93,507
Balance at 1 January 2003	11,809	22,378	(647)	20,375	53,915
Issue of shares for cash	613	11,423	-	-	12,036
Expenses on shares issuance	-	(2)	-	-	(2)
Foreign currency translation differences	-	-	92	-	92
Net profit for the period	-	-	-	9,010	9,010
Dividends	-	-	-	(969)	(969)
Balance at 30 June 2003	12,422	33,799	(555)	28,416	74,082
Balance at 1 April 2003	12,414	33,718	(77)	21,834	67,889
Issue of shares for cash	8	81	-	-	89
Foreign currency translation differences	-	-	(478)	-	(478)
Net profit for the period	-	-	-	6,582	6,582
Balance at 30 June 2003	12,422	33,799	(555)	28,416	74,082
Company					
Balance at 1 January 2004	15,624	31,606	-	31,155	78,385
Issue of shares for cash	34	389	-	-	423
Net profit for the period	-	-	-	(1,096)	(1,096)
Dividends	-	-	-	(1,753)	(1,753)

Balance at 30 June 2004	15,65€	31,995	-	28,306	75,959
Balance at 1 April 2004	15,651	31,892	-	30,385	77,928
Issue of shares for cash	7	103	-	-	110
Net profit for the period	-	-	-	(326)	(326)
Dividends	-	-	-	(1,753)	(1,753)
Balance at 30 June 2004	15,65€	31,995	-	28,306	75,959
Balance at 1 January 2003	11,80€	22,378	-	13,859	48,046
Issue of shares for cash	613	11,423	-	-	12,036
Expenses on shares issuance	-	(2)	-	-	(2)
Net profit for the period	-	-	-	3,596	3,596
Dividends	-	-	-	(969)	(969)
Balance at 30 June 2003	12,422	33,799	-	16,486	62,707
Balance at 1 April 2003	12,414	33,718	-	12,659	58,791
Issue of shares for cash	€	81	-	-	89
Net profit for the period	-	-	-	3,827	3,827
Balance at 30 June 2003	12,422	33,799	-	16,486	62,707

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

- 157,000 new ordinary shares of \$0.05 each were issued pursuant to options exercised under the Hyflux Employee Shares Options Scheme.
- As at 30 June 2004, the outstanding and unexercised options granted under the Scheme were 16,432,725 (30 June 2003: 10,644,550)

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 – Jun 2004 cents	Jan – Jun 2003 cents	Apr – Jun 2004 cents	Apr – Jun 2003 cents
Earnings per ordinary share after deducting any provision for preference dividends were:				
Based on the weighted average number of ordinary shares in issue; and	2.99	2.90	1.97	2.12
On a fully diluted basis	2.95	2.88	1.93	2.11

- 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 Jun 2004 cents	31 Dec 2003 cents
Net asset value per ordinary share of:		
Group	29.9	27.4
Company	24.3	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

1H04 vs 1H03

Net profit for the first half of 2004 rose by 4 % over the same period last year to S\$9.4 million on sales revenue of S\$30.0 million compared to S\$37.4 million last year.

For the half year ended 30 June 2004, industrial sales doubled to S\$24.7 million with most of the growth coming from China. The balance of the sales in the first half of 2004 was from our consumer products. In contrast, sales for the same period last year were boosted by municipal sales of S\$25.0 million, accounting for 67% of the sales last year. As a result of higher industrial sales, average gross margin improved by 6% to 61% this year.

Profit from operation increased by 11% primarily due to lower operating expenses, including no civil and subcontract cost for municipal contracts, partially offset by start up costs for the consumer division and for a new subsidiary established end 2003. Other non-operating income of S\$443K largely comprised bad debts recovered, government grants and exchange gains,

Higher contribution from China subsidiaries which are enjoying tax incentives resulted in lower effective tax rate for the group.

Overall, net margin was up by 7%, to 31%, giving a return on equity of 10% for the 6 months.

2Q04 vs 2Q03

For the 3 months ended 30 June 2004, sales of S\$17.9 million were 33% lower compared to 2Q03, mainly due to the 2 municipal contracts in Singapore, which accounted for 64% of 2Q03 sales. Partially offsetting this was the growth in industrial sales and consumer products .

On the back of strong industrial sales, gross margin improved by 4% to 57%. Though net profit was down by 6% to S\$6.2 million on lower sales, net margins improved to 35% for the quarter primarily attributed to lower operating and finance expenses and other non-operating income of S\$264K from government grants, bad debts recovered and exchange gain.

Balance Sheet

Equity for the group strengthened from S\$85.5 million in the beginning of the year to S\$93.5 million as at 30 June 2004, mainly due to profit generated from operations, partially offset by dividend payment.

Working capital increased by S\$44.0 million due largely to increase in cash and fixed deposits (net of borrowings) by S\$34.3 million, increase in work-in progress, GST receivables and insurance prepayments. The increase in short-term loan of about S\$12.9 million was largely used as bid deposits for industrial and municipal projects in China .

Total non current assets was up by S\$42.0 million mainly due to construction in progress for the seawater desalination plant, purchase of new office building and expenditure on development activities.

During the year, S\$78.0 million of project financing loan was drawn down for the capital expenditure of the seawater desalination plant. This resulted in debt equity ratio of 1.04. Excluding the project financing loan, the debt equity ratio of the group was 0.21.

Earnings per share improved by 0.09 cents to 2.99 cents compared to the same period last year.

Cashflow Statement

For the three months ended 30 June 2004, the group generated net cash from operations of S\$6.2 million. Cash generated through financing activities rose by about S\$58.1 million was largely for the milestone payment for the construction of the seawater desalination plant and bid deposits for China projects. Cash used in investing activities of S\$26.6 million primarily for the purchase of new office building, capital expenditure of seawater desalination plant at Tuas and development expenditure. Overall, the group had a strong cash position of S\$80.9 million as at 30 June 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 order book as of the date of this report is approximately S\$77 million comprising all industrial projects and consumer products compared to S\$62 million in February 2004 announcement. The order book does not include the two build, own and operate(BOO) projects – Singapore seawater desalination plant (about S\$200 million) which is under construction, due for completion in 2005 and Tianjin seawater desalination plant (US\$90 million).

China will continue to be a growth market for us, especially in the pharmaceutical, biotechnology and the chemical and petrochemical segments. Moving forward, given the credit squeeze in China and high energy price, margins for industrial projects may be affected.

On the municipal sector, the group sees a move towards Build-Own-Operate (BOO)/Build-Own-Transfer (BOT) projects as more municipalities began privatising their utility sector. While municipal contracts typically have a longer project development and construction time (about 1.5 – 3 years), they provide a steady long term source of recurring income. In the Singapore market, we will continue to tender for municipal projects. The group remains cautiously optimistic of the prospects this year.

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 Total:	0	0

BY ORDER OF THE BOARD

Lim Kim Seng
Company Secretary
12/8/2004