

Second Quarter Financial Statement – 2006**UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2006****1. GROUP PROFIT AND LOSS ACCOUNT
for the second quarter and half year ended 30 June 2006**

	Half Year			Second Quarter		
	30 Jun 06 S\$'000	30 Jun 05 S\$'000	+ / (-) %	30 Jun 06 S\$'000	30 Jun 05 S\$'000	+ / (-) %
Revenue	71,179	43,069	65%	37,499	18,826	99%
Raw materials and consumables	(33,944)	(18,313)	85%	(22,133)	(7,729)	186%
Personnel expenses	(9,575)	(4,542)	111%	(4,211)	(2,396)	76%
Other operating expenses	(6,031)	(3,133)	92%	(2,828)	(1,443)	96%
Depreciation and amortisation	(2,343)	(1,984)	18%	(1,366)	(1,060)	29%
Other (expenses)/ income	(3,112)	1,365	NM	(2,520)	729	NM
Cost of share-based payment	(1,808)	(707)	156%	(657)	(323)	103%
Gain/(loss) on sale of a subsidiary and an associate	1,655	-	NM	(252)	-	NM
Gain on sale of property, plant and equipment	19	8,517	NM	19	8,505	NM
Financial income	2,919	882	231%	1,350	508	166%
Financial expenses	(4,342)	(967)	349%	(2,204)	(590)	274%
Fair value gain on financial instruments (unrealised)	162	8,680	(98%)	18	3,133	(99%)
Share of results of associates	(947)	-	NM	(18)	-	NM
Profit before taxation	13,832	32,867	(58%)	2,697	18,160	(85%)
Tax expense	(1,636)	(1,018)	61%	(252)	(1,028)	(76%)
Profit after taxation	12,196	31,849	(62%)	2,445	17,132	(86%)
Attributable to:						
Shareholders of the Company	12,585	23,003	(45%)	2,993	14,026	(79%)
Minority interest	(389)	8,846	NM	(548)	3,106	NM
	12,196	31,849	(62%)	2,445	17,132	(86%)

Notes: Numbers in all tables may not exactly add due to rounding.

NM: Not meaningful

NOTES TO GROUP PROFIT AND LOSS ACCOUNT

1(a) Pre-tax profit of the Group is arrived at after charging / (crediting) the following :-

	Half Year			Second Quarter		
	30 Jun 06	30 Jun 05	+ / (-)	30 Jun 06	30 Jun 05	+ / (-)
	S\$'000	S\$'000	%	S\$'000	S\$'000	%
Provision for doubtful debts	(1,224)	-	NM	(1,722)	-	NM
Foreign exchange (loss) / gain (unrealised)	(1,738)	795	NM	(852)	(68)	1153%
Foreign exchange (loss) / gain (realized)	(529)	269	NM	(728)	526	NM

1(b) Profit after tax (excluding one time and fair value gains) attributable to shareholders of the company :-

	Half Year			Second Quarter		
	30 Jun 06	30 Jun 05	+ / (-)	30 Jun 06	30 Jun 05	+ / (-)
	S\$'000	S\$'000	%	S\$'000	S\$'000	%
Profit after taxation	12,196	31,849	(62%)	2,445	17,132	(86%)
Less :						
Fair value gain on financial instruments (unrealised)	(162)	(8,680)	(98%)	(18)	(3,133)	(99%)
Gain on sale of property, plant and equipment	(19)	(8,517)	NM	(19)	(8,506)	NM
	12,015	14,652	(18%)	2,408	5,493	(56%)
Add / (Less) :						
Minority Interest	389	(8,846)	NM	548	(3,106)	NM
Profit after taxation attributable to shareholders	12,404	5,806	114%	2,956	2,387	24%

1(c) Gain on sale of shares in a subsidiary and an associate is arrived as follows :-

	S\$'000
Sale proceeds	12,201
Less:	
Investment disposed	(10,000)
Post-acquisition profits of investment disposed	(33)
	<u>2,168</u>
Exchange difference	(409)
Legal and other professional fees	(104)
Gain on sale of shares in a subsidiary and an associate	<u>1,655</u>

1(d) Earnings per share

	Half Year			Second Quarter		
	30 June 06 Cents	30 June 05 Cents Restated *	+ /(-) %	30 June 06 Cents	30 June 05 Cents Restated	+ /(-) %
Earnings per ordinary share of the Group based on net profit attributable to shareholders :-						
(i) Based on the weighted average number of shares	2.44	4.67	(48%)	0.58	2.75	(79%)
- Weighted average number of shares ('000)	515,600	492,181	5%	515,850	510,210	1%
(ii) On a fully diluted basis	2.38	4.39	(46%)	0.57	2.58	(78%)
- Adjusted weighted average number of shares ('000)	527,230	523,533	1%	526,711	543,420	(3%)

* Restatement in 2005 was due to bonus issue of shares in July 2005.

2. BALANCE SHEET as at 30 June 2006

	Group		Company	
	30 Jun 06 S\$'000	31 Dec 05 S\$'000	30 Jun 06 S\$'000	31 Dec 05 S\$'000
<u>NON-CURRENT ASSETS</u>				
Property, plant and equipment	30,600	106,608	1,890	1,264
Intangible assets	28,271	21,050	2,267	1,921
Lease receivables	89,367	-	-	-
Investment in subsidiaries	-	-	53,835	56,618
Investment in joint ventures	-	-	41,845	22,538
Investment in associates	2,617	11,494	-	8,812
Long-term investments	5,997	5,188	899	-
Due from related parties	7,990	-	-	-
Total non-current assets	164,842	144,340	100,736	91,153
<u>CURRENT ASSETS</u>				
Cash and fixed deposits	61,135	96,412	32,752	52,777
Short term investments	-	2,000	-	2,000
Trade receivables	26,222	31,072	69	227
Lease receivables, current	639	-	-	-
Gross amounts due for contract work	64,726	43,859	12,315	12,095
Other receivables, deposits and prepayments	21,819	17,621	3,175	1,084
Inventories	12,220	11,069	7,916	5,073
Due from related parties	18,761	27,687	16,029	26,657
Short-term loans	6,555	9,732	11,983	870
Derivative financial instruments	7,612	6,568	352	1
Total current assets	219,689	246,020	84,591	100,784
<u>CURRENT LIABILITIES</u>				
Trade payables	40,572	51,681	4,132	1,876
Advance from customers	7,957	8,400	3,242	6,437
Other payables and accruals	10,927	15,972	3,625	4,045
Tax payable	1,956	2,698	(3)	(3)
Derivative financial instruments	3,667	5,465	-	73
Deferred income	1,991	1,609	-	-
Interest-bearing loans and borrowings	33,538	1,641	30,902	385
Total current liabilities	100,608	87,466	41,898	12,813
Net current assets	119,081	158,554	42,693	87,971
<u>NON-CURRENT LIABILITIES</u>				
Deferred tax liabilities	672	288	-	-
Interest-bearing loans and borrowings	79,483	105,437	-	30,902
Total non-current liabilities	80,155	105,725	-	30,902
Net assets	203,768	197,169	143,429	148,222

	Group 30 Jun 06 S\$'000	Group 31 Dec 05 S\$'000	Company 30 Jun 06 S\$'000	Company 31 Dec 05 S\$'000
<u>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY</u>				
Issued share capital	89,570	25,728	89,570	25,728
Share premium	-	62,693	-	62,693
Capital reserve	987	987	-	-
Foreign currency translation reserve	(3,109)	(617)	-	-
Hedging reserve	(3,741)	(7,143)	640	379
Employee share option reserve	4,946	2,852	4,946	2,852
Revenue reserve	110,568	104,946	48,273	56,570
	<u>199,221</u>	<u>189,446</u>	<u>143,429</u>	<u>148,222</u>
Minority interests	<u>4,547</u>	<u>7,723</u>	<u>-</u>	<u>-</u>
Total equity	<u>203,768</u>	<u>197,169</u>	<u>143,429</u>	<u>148,222</u>
<i>Group net borrowings (S\$)</i>	51,886	10,666	n.a.	n.a.
<i>Group net gearing (times)</i>	0.25x	0.05x	n.a.	n.a.

Notes: Numbers in all tables may not exactly add due to rounding.

NOTES TO BALANCE SHEET

2(a) Group's borrowings and debt securities

(i) Amount repayable in one year or less, or on demand

As at 30/06/2006		As at 31/12/2005	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
2,066	31,472	1,256	385

(ii) Amount repayable after one year

As at 30/06/2006		As at 31/12/2005	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
78,524	959	74,535	30,902

Details of any collateral

The loans of the Group obtained from financial institutions are secured by pledges of the assets of a joint venture and a subsidiary in the Group.

2(b) Net assets value

	30 Jun 2006 Cents	31 Dec 2005 Cents	+ / (-) %
Net assets value per ordinary share of:			
Group	38.6	36.8	5%
Company	27.8	28.7	(3%)

2(c) Cash in transit

Cash and fixed deposits includes S\$17.4 million in escrow accounts which was received on 11th July 2006.

3. CONSOLIDATED CASHFLOW STATEMENTS
for the second quarter and half year ended 30 June 2006

	Half Year			Second Quarter		
	30 Jun 06	30 Jun 05	+ / (-)	30 Jun 06	30 Jun 05	+ / (-)
	S\$'000	S\$'000	%	S\$'000	S\$'000	%
OPERATING ACTIVITIES						
Profit before tax	13,832	32,867		2,697	18,160	
Adjustments:						
Cost of share-based payment	1,808	707		657	323	
Fair value (gain) / loss of financial instruments (unrealised)	(162)	(8,680)		420	(3,132)	
(Gain) / loss on sale of a subsidiary and an associate	(1,655)	-		252	-	
Gain on sale of property, plant and equipment	(19)	(8,517)		(19)	(8,505)	
Share of results of associates	947	-		18	-	
Depreciation and amortisation	2,343	1,984		1,366	1,059	
Interest paid	4,342	967		2,204	590	
Interest received	(2,919)	(882)		(1,350)	(508)	
Government grants	424	(130)		424	(70)	
Provision for doubtful debts	1,224	-		1,722	-	
Unrealised profit from associates	-	946		-	946	
Operating cash flows before changes in working capital changes	<u>20,165</u>	<u>19,262</u>	5%	<u>8,391</u>	<u>8,863</u>	(5%)
Working Capital Changes :						
Inventories	(989)	(4,056)		(2,468)	(3,555)	
Gross amounts due for contract work	(26,371)	(13,932)		(13,885)	10,241	
Trade receivables	5,998	(4,774)		17,409	(4,960)	
Other receivables, deposits and prepayments	7,570	(19,498)		3,480	(17,888)	
Due from related parties	9,473	-		5,260	-	
Trade payables	(7,897)	2,497		(2,054)	9,892	
Other payables and accruals	(305)	5,186		3,439	2,151	
Advance from customers	(443)	971		(4,528)	718	
Deferred income	382	(5,387)		(132)	(7,922)	
Derivative financial instruments	(64)	-		(64)	-	
Total working capital changes	<u>(12,646)</u>	<u>(38,993)</u>	(68%)	<u>6,457</u>	<u>(11,323)</u>	NM
Cash generated from / (used in) operations	<u>7,519</u>	<u>(19,731)</u>		<u>14,848</u>	<u>(2,460)</u>	
Tax paid	<u>(579)</u>	<u>(93)</u>		<u>(532)</u>	<u>(37)</u>	
Net cash generated from / (used in) operations	<u>6,940</u>	<u>(19,824)</u>	NM	<u>14,316</u>	<u>(2,497)</u>	NM
INVESTING ACTIVITIES						
Purchase of property, plant and equipment	278	(44,346)		1,382	(29,762)	
Government grants received	229	130		229	70	
Payments for intangible assets	(5,592)	(1,414)		(4,624)	(662)	
Acquisition of a subsidiary, net of cash acquired ^{(Note 3(b))}	(3,648)	-		(3,648)	-	
Sale of a subsidiary and an associate, net of cash disposed ^{(Note 3(a))}	(4,521)	-		12,201	-	
Proceeds from disposal of property, plant and equipment	54	19,161		54	19,053	
Long term investments	-	(1,595)		2,888	224	
Short term investments	2,000	13		-	(2,000)	
Due from related parties, non-current	(7,990)	-		(3,930)	-	
Downpayment for acquisition of subsidiaries	(10,733)	-		(5,708)	-	
Interest received	1,057	882		394	508	

	Half Year			Second Quarter		
	30 Jun 06 S\$'000	30 Jun 05 S\$'000	+ / (-)	30 Jun 06 S\$'000	30 Jun 05 S\$'000	+ / (-)
Investment in associate	-	(9,334)		-	(9,334)	
Net cash (used in)/ generated from investing activities	<u>(28,866)</u>	<u>(36,503)</u>	(21%)	<u>(762)</u>	<u>(21,903)</u>	(97%)
FINANCING ACTIVITIES						
Proceeds from issuance of new shares	1,435	36,502		315	35,999	
Proceeds from/ (payment) of short-term loans	(7,536)	626		(5,393)	542	
Proceeds from long-term loans	5,234	33,576		2,081	9,517	
Interest paid	(4,342)	(967)		(2,204)	(590)	
Interest received from derivatives	1,862	-		956	-	
Dividend paid to shareholders	<u>(6,963)</u>	<u>(4,318)</u>		<u>(6,963)</u>	<u>(4,318)</u>	
Net cash (used in) / generated from financing activities	<u>(10,310)</u>	<u>65,419</u>	NM	<u>(11,208)</u>	<u>41,150</u>	NM
Net (decrease)/ increase in cash and cash equivalents	(32,236)	9,092	NM	2,346	16,750	(86%)
Cash and cash equivalents at beginning of the year	96,412	61,282		59,583	53,679	
Effect of exchange rate changes	<u>(3,041)</u>	<u>(67)</u>		<u>(794)</u>	<u>(122)</u>	
Cash and cash equivalents at end of the period	<u>61,135</u>	<u>70,307</u>	(13%)	<u>61,135</u>	<u>70,307</u>	(13%)

NOTES TO CONSOLIDATED CASHFLOW STATEMENTS

3(a) The values of assets and liabilities of a subsidiary and an associate disposed were as follows :

	S\$'000
Current assets	22,704
Non-current assets	302
Current liabilities	(16,981)
Translation reserve	91
Minority Interest	<u>(3,044)</u>
Net assets sold	3,072
Loss on sale of subsidiary	<u>(386)</u>
Add: Cash proceeds from sale of a subsidiary	2,686
Add: Cash proceeds from sale of associate	<u>9,515</u>
Total cash proceeds	12,201
Less: Cash in subsidiary	<u>(16,722)</u>
Cash outflow on disposal of a subsidiary and associate	<u>(4,521)</u>

3(b) The fair values of the identifiable assets and liabilities of a subsidiary acquired were as follows :

	S\$'000
Cash	464
Current assets	1,914
Non-current assets	19,439
Current liabilities	(18,544)
Non-current liabilities	(1,098)
Minority interest	<u>(466)</u>
Net assets acquired:	1,709
Goodwill on consolidation	<u>2,403</u>
Purchase consideration	4,112
Less: cash of subsidiary acquired	<u>(464)</u>
Net cash outflow on acquisition	<u>3,648</u>

4. STATEMENTS OF CHANGES IN EQUITY
for the second quarter and half year ended 30 June 2006

4(a). Statement of changes in equity of the Group

Attributable to shareholders of the Company

	Issued share capital S\$'000	Share premium S\$'000	Capital reserve S\$'000	Foreign currency translation reserve S\$'000	Hedging reserves S\$'000	Employee share option reserves S\$'000	Revenue reserve S\$'000	Total S\$'000	Minority interests S\$'000	Total equity S\$'000
Group										
At 1.1.2006	25,728	62,693	987	(617)	(7,143)	2,852	104,946	189,446	7,723	197,169
Effects of Companies (Amendment) Act 2005	62,693	(62,693)	-	-	-	-	-	-	-	-
Issue of shares for cash	1,149	-	-	-	-	286	-	1,435	-	1,435
Fair value gain of financial derivatives	-	-	-	-	3,402	-	-	3,402	-	3,402
Reduction of MI due to disposal of a subsidiary	-	-	-	-	-	-	-	-	(3,044)	(3,044)
Foreign currency translation differences	-	-	-	(2,492)	-	-	-	(2,492)	(209)	(2,701)
Cost of share-based payment	-	-	-	-	-	1,808	-	1,808	-	1,808
Acquisition of subsidiary	-	-	-	-	-	-	-	-	466	466
Net profit for the period	-	-	-	-	-	-	12,585	12,585	(389)	12,196
Dividends	-	-	-	-	-	-	(6,963)	(6,963)	-	(6,963)
At 30.6.2006	89,570	-	987	(3,109)	(3,741)	4,946	110,568	199,221	4,547	203,768
At 1.4.2006	89,541	-	987	(2,605)	(3,593)	4,003	114,538	202,871	4,672	207,543
Issue of shares for cash	29	-	-	-	-	286	-	315	-	315
Fair value gain of financial derivatives	-	-	-	-	(148)	-	-	(148)	-	(148)
Foreign currency translation differences	-	-	-	(504)	-	-	-	(504)	(43)	(547)
Cost of share-based payment	-	-	-	-	-	657	-	657	-	657
Acquisition of subsidiary	-	-	-	-	-	-	-	-	466	466
Net profit for the period	-	-	-	-	-	-	2,993	2,993	(548)	2,445
Dividends	-	-	-	-	-	-	(6,963)	(6,963)	-	(6,963)
At 30.6.2006	89,570	-	987	(3,109)	(3,741)	4,946	110,568	199,221	4,547	203,768

4(a). Statement of changes in equity of the Group – cont'd

	Attributable to shareholders of the Company							Minority interests	Total equity	
	Share capital	Share premium	Capital reserve	Foreign currency translation reserve	Hedging reserve	Employee share option reserve	Revenue reserve			Total
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000			S\$'000
Group										
At 31.12.2004 as previously reported	15,784	33,626	834	(1,527)	-	-	63,930	112,647	3,375	116,022
Effect of adopting FRS 102	-	-	-	-	-	1,964	(1,964)	-	-	-
At 31.12.2004 as restated	15,784	33,626	834	(1,527)	-	1,964	61,966	112,647	3,375	116,022
On adoption of FRS 39 at 1 January 2005	-	-	-	-	(16,651)	-	(129)	(16,780)	-	(16,780)
At 1.1.2005 as restated	15,784	33,626	834	(1,527)	(16,651)	1,964	61,837	95,867	3,375	99,242
Issue of shares for cash	1,231	35,272	-	-	-	-	-	36,503	-	36,503
Fair value gain of financial derivatives	-	-	-	-	(902)	-	-	(902)	-	(902)
Capital reserve arising on consolidation	-	-	126	-	-	-	-	126	-	126
Foreign currency translation differences	-	-	-	496	-	-	-	496	97	593
Cost of share-based payment	-	-	-	-	-	707	-	707	-	707
Net profit for the period	-	-	-	-	-	-	23,002	23,002	8,846	31,848
Dividends	-	-	-	-	-	-	(4,318)	(4,318)	-	(4,318)
At 30.6.2005	17,015	68,898	960	(1,031)	(17,553)	2,671	80,521	151,481	12,318	163,799
At 1.4.2005	15,812	34,102	960	(1,483)	(12,224)	2,348	70,813	110,328	9,153	119,481
Issue of shares for cash	1,203	34,796	-	-	-	-	-	35,999	-	35,999
Fair value gain of financial derivatives	-	-	-	-	(5,329)	-	-	(5,329)	-	(5,329)
Foreign currency translation differences	-	-	-	452	-	-	-	452	59	511
Cost of share-based payment	-	-	-	-	-	323	-	323	-	323
Net profit for the year	-	-	-	-	-	-	14,026	14,026	3,106	17,132
Dividends	-	-	-	-	-	-	(4,318)	(4,318)	-	(4,318)
At 30.6.2005	17,015	68,898	960	(1,031)	(17,553)	2,671	80,521	151,481	12,318	163,799

4(b). **Statement of changes in equity of the Company**

Attributable to shareholders

	Share capital	Share premium	Hedging reserve	Employee share option reserve	Revenue reserve	Total equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000

Company

At 1.1.2006	25,728	62,693	379	2,852	56,570	148,222
Effects of Companies (Amendment) Act 2005	62,693	(62,693)	-	-	-	-
Issue of shares for cash	1,149	-	-	286	-	1,435
Fair value gain of financial derivatives	-	-	261	-	-	261
Cost of share-based payment	-	-	-	1,808	-	1,808
Net loss for the period	-	-	-	-	(1,334)	(1,334)
Dividends	-	-	-	-	(6,963)	(6,963)
At 30.6.2006	89,570	-	640	4,946	48,273	143,429
At 1.4.2006	89,541	-	612	4,003	54,294	148,450
Issue of shares for cash	29	-	-	286	-	315
Fair value gain of financial derivatives	-	-	28	-	-	28
Cost of share-based payment	-	-	-	657	-	657
Net profit for the period	-	-	-	-	942	942
Dividends	-	-	-	-	(6,963)	(6,963)
At 30.6.2006	89,570	-	640	4,946	48,273	143,429

4(b). Statement of changes in equity of the Company – cont'd

Attributable to shareholders

	Share capital S\$'000	Share premium S\$'000	Hedging reserve S\$'000	Employee share option reserve S\$'000	Revenue reserve S\$'000	Total equity S\$'000
At 31.12.2004 as previously reported	15,784	33,626	-	-	39,114	88,524
Effect of adopting FRS 102	-	-	-	1,964	(1,964)	-
At 31.12.2004 as restated	15,784	33,626	-	1,964	37,150	88,524
Effect of adopting FRS 39	-	-	5	-	(1,395)	(1,390)
At 1.1.2005 as restated	15,784	33,626	5	1,964	35,755	87,134
Issue of shares for cash	1,231	35,272	-	-	-	36,503
Fair value gain of financial derivatives	-	-	(104)	-	-	(104)
Cost of share-based payment	-	-	-	707	-	707
Net loss for the period	-	-	-	-	(1,414)	(1,414)
Dividends	-	-	-	-	(4,318)	(4,318)
At 30.6.2005	17,015	68,898	(99)	2,671	30,023	118,508
At 1.4.2005	15,812	34,102	8	2,348	35,701	87,971
Issue of shares for cash	1,203	34,796	-	-	-	35,999
Fair value gain of financial assets/ liabilities/ derivatives	-	-	(107)	-	-	(107)
Cost of share-based payment	-	-	-	323	-	323
Net loss for the period	-	-	-	-	(1,360)	(1,360)
Dividends	-	-	-	-	(4,318)	(4,318)
At 30.6.2005	17,015	68,898	(99)	2,671	30,023	118,508

4(c) Share capital

Pursuant to the Companies (Amendment) Act 2005 which is effective from 30 January 2006, the concept of authorised share capital and par value has been abolished. Amount standing to the credit of share premium account and capital redemption reserve are been transferred to the issued share capital account as at that date.

For the six months ended 30 June 2006, 1,344,000 new ordinary shares were issued pursuant to options exercised under the Hyflux Employee Shares Option Scheme ("Scheme"), of which 338,000 shares were issued in 2Q 2006.

For the six months ended 30 June 2006, 2,850,000 options were granted under the Scheme. There were no employee share options issued during the three months ended 30 June 2006.

As at 30 Jun 2006, the number of outstanding and unexercised Options granted under the Scheme were 21,636,843 (30 Jun 2005: 17,945,912).

5. AUDIT / REVIEW

The financial statements have not been audited nor reviewed by our auditors.

6. AUDITORS' REPORT

Not applicable

7. ACCOUNTING POLICIES

The Group and the Company have applied the same accounting policies and methods of computation as in their most recently audited annual financial statements, except as set out in paragraph 8 below.

8. CHANGES IN THE ACCOUNTING POLICIES

8(a) INT FRS 104 - Determining Whether an Arrangement Contains a Lease

This interpretation is effective for annual periods commencing on or after 1 January 2006. The Group has adopted Interpretation of Financial Reporting Standard 104 – Determining whether an arrangement contains a lease ("INT FRS 104") with effect from 1 January 2006. INT FRS 104 provides guidelines in the determination of whether an arrangement is a lease. This depends on the use of a specific asset and whether it conveys a right to use the asset by the counterparty and, if so, Financial Reporting Standard 17 ("FRS 17" - Leases), will apply.

SingSpring Pte Ltd ("SingSpring"), a joint venture, has signed a Water Purchase Agreement ("WPA") with Singapore's Public Utilities Board ("PUB") to supply treated water to PUB from a seawater desalination plant, which is developed, financed, designed, built, owned and operated by SingSpring. The supply arrangement is for a period of 20 years from December 2005. The plant is located on a piece of leasehold land which is under the name of SingSpring and the lease period is 30 years from January 2004. In accordance with the interpretation of FRS 17 and INT FRS 104, this arrangement constitutes a finance lease.

The impact of the change in accounting treatment to a finance lease for SingSpring is as follows:

1. Balance Sheet

Property, plant and equipment of the Group is reduced by about S\$100 million with a corresponding recognition of a lease receivable of the same amount. Accordingly, there is no change in the amount of total assets.

2. Income Statement

a) The total proceeds received from PUB is recognised as follows:

- Part of the proceeds as revenue, and
- Part of the proceeds as reduction in lease receivables

b) There will be no depreciation charge.

8(b) FRS 21 – The Effect of Changes In Foreign Exchange Rates

With effect from 1 January 2006, a subsidiary and a joint venture of the Group adopted US Dollars and RMB respectively, as their functional currencies, in accordance with FRS 21 (revised), as US Dollars and RMB best reflects the economic substance of the underlying activities of the entities.

The impact of the adoption of FRS 21 (revised) is as follows :

1. Balance Sheet

Foreign currency translation reserve is reduced by S\$1.3 million.

2. Income Statement

Unrealised exchange loss for the Group is reduced by S\$1.3 million.

9. REVIEW OF GROUP PERFORMANCE

9(a) Income Statement Analysis

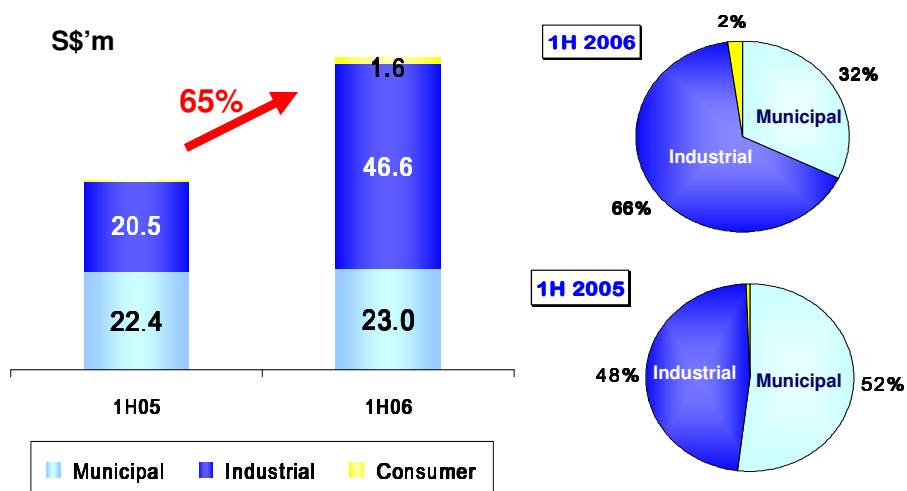
Half Year

For the first half year, Group revenue grew by 65% to S\$71.2 million compared to same period last year with profit after tax attributable to shareholders at S\$12.6 million. In first half 2005, profit after tax attributable to shareholders of S\$23.0 million were mainly boosted by S\$17.2 million of gain from disposal of Hyflux Building and unrealised fair value gains of financial derivatives. Excluding these exceptional gains, profits attributable to shareholders of the Company of S\$12.4 million was S\$6.6 million or 114% above the same period in 2005 (see page 2, note 1(b)), in line with core business growth.

Industrial sales grew significantly to S\$46.6 million or 128% higher, from its large order book. Municipal sales increased marginally to S\$23.0 million, on the back of strong project pipelines from China. China continued to be the key revenue driver accounting for 70% of Group's total revenue, compared to 46% in 2005. With the Singapore desalination plant now fully operational, contributions from Singapore increased by 803% to S\$11.6 million.

Revenue by Sector

Industrial sales continues to grow

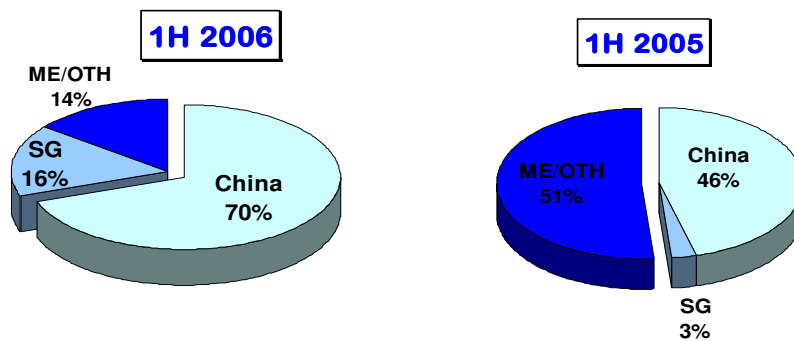


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Revenue by Country

China - key revenue driver



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Costs and Expenses

For the first half year, raw materials and consumables increased by 85% to S\$33.9 million from S\$18.3 million, in line with higher revenue. Personnel expenses of S\$9.6 million was S\$5.0 million or 111% higher than that of the corresponding period in 2005 as the Group continues to build on its human capital to expand production capacity, to develop new markets in India and the Middle East and North Africa (MENA) region, to develop new oil recycling business as well as to enhance our project execution capabilities. Overall costs and expenses have increased, in line with the higher sales and the Group's efforts to capitalise on its

technology and track records to expand into the region and to develop new revenue streams. Other expenses increased to S\$3.1 million mainly due to the provision of doubtful debts and unrealised exchange losses. Higher financial expenses was due to expenses incurred on the project financing loan for SingSpring seawater desalination plant. Fair value gain on financial instruments (unrealised) was S\$0.2 million compared to S\$8.7 million last year as financial instruments qualified for hedge accounting with fair value adjustments was adjusted to hedging reserve in the Balance Sheet.

Basic Earnings Per Share

Basic earnings per share was 2.44 cents compared to 4.67 cents a year ago. The decrease in basic earnings per share was due to lower profits and more shares issued this year (30 June 2006: 515,600,000 shares, 30 June 2005: 492,181,000 shares). Earnings per share excluding one time and fair value gains increased 104% from 1.18 cents to 2.41 cents.

Second Quarter

Group revenue for the second quarter almost doubled to S\$37.5 million, driven by higher industrial sales. Profit after tax was S\$2.4 million. Excluding the one time and fair value gains, profit after attributable to shareholders of the Company of S\$3.0 million was 24% higher compared to the same quarter last year (see page 2, note 1(b))

9(b) Balance Sheet Analysis

Group

Shareholders' Equity

Shareholders' equity increased by S\$9.8 million or 5% to S\$199.2 million from S\$189.4 million as of 31 December 2005 mainly resulted from net profit for the year of S\$12.6 million. Under the Companies (Amendment) Act 2005 effective 30 January 2006, the concepts of par value and authorised share capital are abolished and the amount in the share premium account as of 30 January 2006 becomes part of the Group's and the Company's share capital.

Minority Interest

Minority interest decreased by 41% to S\$4.5 million mainly due to the divestment of a subsidiary in the Middle East.

Non-Current Assets

Non-current assets increased by S\$20.5 million, or 14% above that of 31 December 2005 mainly due to additional amounts due from related parties and acquisition of technology, partially offset by the disposal of an associate.

With the adoption of INT FRS 104 effective 1 January 2006, the arrangement between SingSpring Pte Ltd ("SingSpring") and Public Utilities Board to supply treated water for 20 years, is treated as a finance lease. As such, the property, plant and equipment of SingSpring of about S\$100 million has been reclassified to lease receivable (see page 13, note 8(a)). There is no change in the amount of total assets arising from this reclassification.

Non-Current Liabilities

Non-current liabilities decreased by 24% to S\$80.2 million from S\$105.7 million, due to reclassification of part of the amounts to current liabilities in accordance with the maturing dates of the loan amounts.

Working Capital

Total current assets reduced by 11% to S\$219.7 million from S\$246.0 million mainly due to lower cash and fixed deposits by S\$35.3 million, lower amounts due from related parties of S\$8.9 million and lower trade receivables of S\$4.9 million. This was partially offset by higher amounts due from customers for contract work of S\$20.9 million and higher deposits and prepayments of S\$4.2 million.

Total current liabilities increased by 15% to S\$100.6 million from S\$87.5 million mainly due to S\$30.9 million of interest bearing loans reclassified from long term liabilities, partially offset by lower trade payables, other payables and accruals of about S\$16.2 million.

Overall, working capital decreased by 25% to S\$119.1 million from S\$158.6 million.

Net Debt to Equity Ratio

The net debt to equity ratio for the Group increased to 0.25 as of June 2006 from 0.05 as of December 2005 due to lower cash balances. Excluding the project finance loan, the Group was in a net cash position.

Company

Shareholders' equity for the Company decreased marginally to S\$143.4 million mainly due to dividends paid out and net loss incurred for the period.

Non-current assets increased by 11% to S\$100.7 million from S\$91.2 million largely due to higher investment in joint venture of S\$19.3 million, partially offset by divestment of equity stake in Middle East ventures.

Decrease in non-current liabilities of S\$30.9 million mainly arose from the reclassification of the term loan facility from non-current liabilities to current liabilities.

9(c) Cashflow Statement Analysis

Half Year

The Group's cash position as of 30 June 2006 was S\$61.1 million, down by S\$9.2 million compared to a year ago.

Net cash generated from operations of S\$6.9 million was mainly due to positive working capital changes, especially from progress payments received for contracts and related parties.

Cash used in investing activities was S\$28.9 million. The Group spent on acquisitions of subsidiaries, technologies and downpayment for acquisitions of subsidiaries for Design Build Own Operate (DBOO)/ Design Build Own Transfer (DBOT) projects in China, and disposal of a subsidiary and an associate in the Middle East.

Cash used in financing activities was S\$10.3 million, mainly for the repayment of term loans, interest payments and dividend distribution to shareholders, partially offset by the remaining drawdown of project finance loan for SingSpring.

Second Quarter

Group's net cash generated from operations was S\$14.3 million as compared to \$2.5 million used last year. This was mainly due to higher amounts received from trade receivables and due from related parties.

Net cash used from investing activities was S\$0.8 million, mainly contributed by downpayment for acquisitions of subsidiaries, acquiring technologies and shares in subsidiaries, partially offset by proceeds received from the disposal of shares in a subsidiary and an associate.

Cash used in financing activities was \$11.2 million. This was mainly for the repayment of term loans, interest payment and payment of dividends.

10. VARIANCE FROM PROSPECT STATEMENT

No variance from previous statement.

11. PROSPECT

Underpinned by large order book and positive growth prospects, the Group expect its performance for second half 2006 to be stronger than the first half.

The Group continues to focus on successful execution of China projects of 12 municipal projects in China, which when completed in 2 years' time, are expected to generate substantial recurring cashflow over a 20-30 year period. In the pipeline are several projects under development in South East Asia region, China, India and MENA region. Prospects for new projects remains good amid an increasing demand for drinking water and the growing efforts of municipalities to clamp down on environmental issues.

We expect the growth in Industrial sales to remain strong, on the back of strong demand from the pharmaceutical and bio-technology sectors. The increasing oil prices provides tremendous growth opportunities as we capitalise on our proven technologies in the oil recovery processing. The delivery of the first phase of membrane based processing plant in Singapore is on track and we expect positive contributions from this sector next year.

The order book as of date of announcement stood at S\$382 million.

The Group has successfully signed a 5-year syndicated loan facility for US\$138 million ("Facility") with banks from China, Malaysia, Taiwan, Europe and all the major Singapore banks. The Facility will allow the Group to execute the strong pipeline of projects and fund new opportunities.

12. DIVIDEND

No dividend was declared during the quarter.

BY ORDER OF THE BOARD

Grace Goh
Company Secretary
8 August 2006