

**First Quarter Financial Statements – 2007****PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3),  
HALF-YEAR AND FULL YEAR RESULTS****1 An income statement (for the group) together with a comparative statement for the  
corresponding period of the immediately preceding financial year**

	1 Jan 07 to 31 Mar 07 \$'000	1 Jan 06 to 31 Mar 06 \$'000	+ / (-) %
<b>Revenue</b>	<b>13,350</b>	33,680	(60%)
Raw materials and consumables used	(4,950)	(11,812)	(58%)
Personnel expenses	(4,974)	(5,364)	(7%)
Cost of share-based payments	(703)	(1,151)	(39%)
Other operating expenses	(3,407)	(2,752)	24%
Depreciation and amortisation	(1,588)	(976)	63%
Gain on sale of partial interest in a joint venture	8,089	-	NM
Gain on sale of a subsidiary and an associate	-	1,655	(100%)
Financial income	304	664	(54%)
Financial expenses	(1,349)	(1,232)	9%
Fair value gain on financial instruments (unrealised)	335	145	NM
Fair value loss on financial instruments (realised)	(3,269)	-	NM
Share of results of associates	659	(929)	NM
Other non-operating income / (expenses)	145	(794)	NM
<b>Profit before taxation</b>	<b>2,642</b>	11,134	<b>(76%)</b>
Tax expense	(1,218)	(1,383)	(12%)
<b>Net profit for the period</b>	<b>1,424</b>	9,751	<b>(85%)</b>
<b>Attributable to:</b>			
Shareholders of the Company	1,240	9,592	(87%)
Minority interests	184	159	16%
	<b>1,424</b>	9,751	<b>(85%)</b>

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

NM: Not meaningful

## NOTES TO GROUP PROFIT AND LOSS ACCOUNT

### 1(a) Profit before taxation of the Group is arrived at after (charging)/crediting the following: -

	1 Jan 07 to 31 Mar 07 S\$'000	1 Jan 06 to 31 Mar 06 S\$'000	+ / (-)
(Allowance for) / reversal of allowance for doubtful debts – trade	(297)	453	NM
Allowance for inventory obsolescence	(34)	(99)	(66%)
Write-off for inventory obsolescence	(113)	-	NM
Foreign exchange loss (unrealised)	(141)	(886)	(84%)
Foreign exchange (loss) / gain (realised)	(100)	198	NM
Gain on sale of property, plant and equipment	<u>74</u>	<u>1</u>	NM

### 1(b) Gain on sale of partial interest in a joint venture is arrived as follows: -

	1 Jan 07 31 Mar 07 \$'000	1 Jan 06 to 31 Mar 06 \$'000
Cash received from sale	20,371	-
Less: Repayment of shareholders' loan	<u>(2,750)</u>	<u>-</u>
	17,621	-
Less:		
Cost of investment disposed	(8,000)	-
Post-acquisition profits of investment disposed	<u>(1,389)</u>	<u>-</u>
	8,232	
Legal and other professional fees incurred pursuant to the disposal	<u>(143)</u>	<u>-</u>
<b>Gain on sale of partial interest in a joint venture</b>	<u><u>8,089</u></u>	<u><u>-</u></u>

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

	1 Jan 07 to 31 Mar 07 \$'000	1 Jan 06 to 31 Mar 06 \$'000
Sales proceeds	-	12,201
Less:		
Cost of investment disposed	-	(10,000)
Post-acquisition profits of investment disposed	<u>-</u>	<u>(33)</u>
	-	2,168
Exchange difference	-	(409)
Legal and other professional fees incurred pursuant to the disposal	<u>-</u>	<u>(104)</u>
<b>Gain on sale of a subsidiary and an associate</b>	<u><u>-</u></u>	<u><u>1,655</u></u>

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

	Group 31 Mar 07 \$'000	Group 31 Dec 06 \$'000	Company 31 Mar 07 \$'000	Company 31 Dec 06 \$'000
<b><u>NON-CURRENT ASSETS</u></b>				
Property, plant and equipment	52,654	48,908	4,511	4,347
Intangible assets	40,180	38,982	3,444	3,408
Investment in subsidiaries	-	-	103,541	104,654
Investment in joint venture	-	-	-	20,000
Investment in associates	23,179	6,963	12,000	-
Long-term investments	7,078	5,997	899	899
Lease receivables	41,437	141,336	-	-
Other receivables	1,980	3,979	13,594	14,515
Deferred tax assets	646	505	-	-
<b>Total non-current assets</b>	<b>167,154</b>	<b>246,670</b>	<b>137,989</b>	<b>147,823</b>
<b><u>CURRENT ASSETS</u></b>				
Gross amounts due for contract work	52,173	50,723	14,795	14,031
Inventories	13,866	11,193	10,904	8,506
Trade receivables	35,021	30,734	1,196	1,165
Lease receivables, current	500	757	-	-
Other receivables, deposits and prepayments	37,447	25,526	4,877	3,427
Due from related parties (trade)	14,540	15,901	41,439	37,092
Short-term loans	-	98	-	-
Derivative financial instruments	-	3,758	-	228
Cash and fixed deposits	32,087	55,827	2,848	4,694
<b>Total current assets</b>	<b>185,634</b>	<b>194,517</b>	<b>76,059</b>	<b>69,143</b>
<b><u>CURRENT LIABILITIES</u></b>				
Derivative financial instruments	-	4,995	-	-
Trade payables	35,068	35,277	1,770	1,012
Other payables and accruals	9,788	11,377	692	2,007
Advance from customers	9,382	3,358	2,062	2,062
Interest-bearing loans and borrowings	812	33,663	-	30,902
Finance lease liabilities	235	576	-	-
Deferred income	8,108	12,197	-	-
Tax payable	179	973	-	-
<b>Total current liabilities</b>	<b>63,572</b>	<b>102,416</b>	<b>4,524</b>	<b>35,983</b>
<b>Net current assets</b>	<b>122,062</b>	<b>92,101</b>	<b>71,535</b>	<b>33,160</b>
<b><u>NON-CURRENT LIABILITIES</u></b>				
Interest-bearing loans and borrowings	58,688	115,001	56,597	36,518
Finance lease liabilities	278	-	-	-
Deferred tax liabilities	4,359	4,136	141	159
<b>Total non-current liabilities</b>	<b>63,325</b>	<b>119,137</b>	<b>56,738</b>	<b>36,677</b>
<b>Net assets</b>	<b>225,891</b>	<b>219,634</b>	<b>152,786</b>	<b>144,306</b>

	<b>Group</b> <b>31 Mar 07</b> <b>\$'000</b>	<b>Group</b> <b>31 Dec 06</b> <b>\$'000</b>	<b>Company</b> <b>31 Mar 07</b> <b>\$'000</b>	<b>Company</b> <b>31 Dec 06</b> <b>\$'000</b>
<b><u>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY</u></b>				
Share capital	<b>91,848</b>	91,142	<b>91,848</b>	91,142
Capital reserve	<b>987</b>	987	-	-
Foreign currency translation reserve	<b>(4,851)</b>	(4,550)	-	-
Hedging reserve	<b>(4,087)</b>	(7,839)	-	563
Employee share option reserve	<b>6,991</b>	6,288	<b>6,991</b>	6,288
Revenue reserve	<b>116,294</b>	115,054	<b>53,947</b>	46,313
Shareholders' equity	<b>207,182</b>	201,082	<b>152,786</b>	144,306
Minority interests	<b>18,709</b>	18,552	-	-
<b>Total equity</b>	<b>225,891</b>	219,634	<b>152,786</b>	144,306
<i>Group net borrowings (S\$)</i>	<b>27,926</b>	93,413	<b>n.a.</b>	n.a.
<i>Group net gearing (times)</i>	<b>0.12x</b>	0.43x	<b>n.a.</b>	n.a.

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

## NOTES TO BALANCE SHEETS

### 2(a) Group's borrowings and debt securities

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

31 Mar 07		31 Dec 06	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
794	253	2,543	31,696

#### (ii) Amount repayable after one year

31 Mar 07		31 Dec 06	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
2,358	56,608	78,483	36,518

#### Details of any collateral

Certain subsidiaries of the Group have provided corporate guarantees to the financial institutions for the loans extended to the Company. One of the subsidiary's bank loan is secured by a lien over the inventory and receivables of this subsidiary and partially guaranteed by a director of this subsidiary and a financial institution.

### 2(b) Net assets value

	31 Mar 2007 Cents	31 Dec 2006 Cents
<b>Net assets value per ordinary share of:</b>		
Group	39.9	38.8
Company	29.4	27.8

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

	1 Jan 07 to 31 Mar 07 \$'000	1 Jan 06 to 31 Mar 06 \$'000	+ / (-) %
<b>Cash flows from operating activities</b>			
Profit before taxation	2,642	11,134	
Adjustments:			
Cost of share-based payments	703	1,151	
Fair value gain on financial instruments (unrealised)	(335)	(145)	
Fair value loss on financial instruments (realised)	3,269	-	
Gain on sale of partial interest in a joint venture	(8,089)	-	
Gain on sale of a subsidiary and associate	-	(1,655)	
Gain on sale of property, plant and equipment	(74)	(1)	
Share of results of associates	(659)	929	
Depreciation and amortisation	1,588	976	
Financial expense	1,349	1,232	
Financial income	(304)	(664)	
Allowance /(reversal of allowance) for doubtful debts - trade	297	(453)	
Allowance for inventory obsolescence	34	99	
Write-off for inventory obsolescence	113	-	
Operating cash flows before working capital changes	<u>534</u>	<u>12,603</u>	(96%)
Inventories	(2,820)	(5,088)	
Gross amounts due for contract work	(1,933)	(12,485)	
Trade receivables	(5,791)	(14,445)	
Other receivables, deposits and prepayments	(15,497)	(1,871)	
Due from related parties	1,516	4,451	
Trade payables	211	(5,843)	
Other payables and accruals	(1,358)	(3,738)	
Advances from customers	5,748	4,085	
Deferred income	(4,230)	514	
Total working capital changes	<u>(24,154)</u>	<u>(34,420)</u>	(30%)
Cash used in operations	(23,620)	(21,817)	
Tax paid	(601)	(48)	
Net cash used in operating activities	<u>(24,221)</u>	<u>(21,865)</u>	11%
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(1,883)	(1,553)	
Acquisition of intangible assets	(1,778)	(967)	
Proceeds from sale of a subsidiary and an associate	-	(4,521)	
Proceeds from partial sale of interest in a joint venture	15,962	-	
Proceeds from disposal of property, plant and equipment	74	-	
Long-term investments	(1,081)	(2,888)	
Short-term investments	-	2,000	
Investment in joint ventures	-	(6,101)	
Interest received	304	664	
Net cash generated from / (used in) investing activities	<u>11,598</u>	<u>(13,366)</u>	NM

	1 Jan 07 to 31 Mar 07 \$'000	1 Jan 06 to 31 Mar 06 \$'000	+/ (-) %
<b>Cash flows from financing activities</b>			
Proceeds from issuance of new shares under Employees' Share Option Scheme	706	1,121	
Repayment of short-term loans	(31,965)	(2,143)	
Proceeds from long-term loans	21,776	3,153	
Repayment of finance lease obligations	(63)	-	
Interest paid	(1,349)	(1,232)	
Net cash (used in) / generated from financing activities	<u>(10,895)</u>	<u>899</u>	<b>NM</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(23,518)</b>	<b>(34,332)</b>	<b>(31%)</b>
Cash and cash equivalents at beginning of the period	55,827	96,412	
Effect of exchange rate changes	(222)	(2,497)	
<b>Cash and cash equivalents at end of the period</b>	<b><u>32,087</u></b>	<b><u>59,583</u></b>	<b>(46%)</b>

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

## NOTES TO CONSOLIDATED CASHFLOW STATEMENTS

3(a) The values of assets and liabilities of joint venture disposed were as follows :

	1 Jan 07 to 31 Mar 07 \$'000	1 Jan 06 to 31 Mar 06 \$'000
Current assets	4,248	-
Non-current assets	39,667	-
Current liabilities	(2,827)	-
Non-current liabilities	(31,699)	-
<b>Net assets sold</b>	<b>9,389</b>	<b>-</b>
Gain on partial disposal	8,089	-
Professional fees incurred	143	-
Cash proceeds from sale	17,621	-
Less: Professional fees incurred	(143)	-
Less: Cash of joint venture	(1,516)	-
<b>Cash inflow on partial sale of interest in a joint venture</b>	<b>15,962</b>	<b>-</b>

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

	1 Jan 07 to 31 Mar 07 \$'000	1 Jan 06 to 31 Mar 06 \$'000
Current assets	-	23,505
Non-current assets	-	7,218
Current liabilities	-	(17,128)
Non-current liabilities	-	(5)
Minority interest	-	(3,044)
<b>Net assets sold</b>	<b>-</b>	<b>10,546</b>
Gain on sale of subsidiary	-	1,655
Add: Cash proceeds from sale of subsidiaries	-	2,686
Add: Cash proceeds from sale of associate	-	9,515
<b>Total cash proceeds</b>	<b>-</b>	<b>12,201</b>
Less: Cash in subsidiaries	-	(16,722)
<b>Cash outflow on sale of a subsidiary and an associate</b>	<b>-</b>	<b>(4,521)</b>



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

**Attributable to shareholders of the Company**

	Share capital	Share premium	Capital reserve	Foreign currency translation reserve	Hedging reserve	Employee share option reserve	Revenue reserve	Total	Minority interests	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Group - 2007</b>										
<b>At 1.1.2007</b>	91,142	-	987	(4,550)	(7,839)	6,288	115,054	201,082	18,552	219,634
Issuance of shares for cash under Employees' Share Option Scheme	706	-	-	-	-	-	-	706	-	706
Net fair value gain of derivative financial instruments	-	-	-	-	1,046	-	-	1,046	-	1,046
Recognised in profit and loss account on maturity of financial instruments	-	-	-	-	(563)	-	-	(563)	-	(563)
Recognised in profit and loss account on partial sale of interest in a joint venture	-	-	-	-	3,269	-	-	3,269	-	3,269
Foreign currency translation differences	-	-	-	(301)	-	-	-	(301)	(27)	(328)
Cost of share-based payment	-	-	-	-	-	703	-	703	-	703
Net profit for the period	-	-	-	-	-	-	1,240	1,240	184	1,424
<b>Balance at 31.3.2007</b>	<b>91,848</b>	<b>-</b>	<b>987</b>	<b>(4,851)</b>	<b>(4,087)</b>	<b>6,991</b>	<b>116,294</b>	<b>207,182</b>	<b>18,709</b>	<b>225,891</b>

**Attributable to shareholders of the Company**

	<b>Share capital</b>	<b>Share premium</b>	<b>Capital reserve</b>	<b>Foreign currency translation reserve</b>	<b>Hedging reserve</b>	<b>Employee share option reserve</b>	<b>Revenue reserve</b>	<b>Total</b>	<b>Minority interests</b>	<b>Total equity</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Group - 2006</b>										
<b>At 1.1.2006</b>	25,728	62,693	987	(617)	(7,143)	2,852	105,063	189,563	7,723	197,286
Effects of Companies (Amendment) Act 2005	62,693	(62,693)	-	-	-	-	-	-	-	-
Issuance of shares for cash under Employees' Share Option Scheme	1,121	-	-	-	-	-	-	1,121	-	1,121
Net fair value gain of derivative financial instruments	-	-	-	-	3,550	-	-	3,550	-	3,550
Reduction of MI due to disposal of subsidiary	-	-	-	-	-	-	-	-	(3,044)	(3,044)
Foreign currency translation differences	-	-	-	(1,988)	-	-	-	(1,988)	(166)	(2,154)
Cost of share-based payment	-	-	-	-	-	1,151	-	1,151	-	1,151
Net profit for the period	-	-	-	-	-	-	9,592	9,592	159	9,751
<b>Balance at 31.3.2006</b>	<b>89,542</b>	<b>-</b>	<b>987</b>	<b>(2,605)</b>	<b>(3,593)</b>	<b>4,003</b>	<b>114,655</b>	<b>202,989</b>	<b>4,672</b>	<b>207,661</b>

	Share capital \$'000	Share premium \$'000	Hedging reserve \$'000	Employee share option reserve \$'000	Revenue reserve \$'000	Total equity \$'000
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### Company - 2007

<b>At 1.1.2007</b>	91,142	-	563	6,288	46,313	144,306
Issuance of shares for cash under Employees' Share Option Scheme	706	-	-	-	-	706
Recognised in profit and loss account on maturity of financial instruments	-	-	(563)	-	-	(563)
Cost of share-based payments	-	-	-	703	-	703
Net profit for the period	-	-	-	-	7,634	7,634
<b>At 31.3.2007</b>	<b>91,848</b>	<b>-</b>	<b>-</b>	<b>6,991</b>	<b>53,947</b>	<b>152,786</b>

	Share capital \$'000	Share premium \$'000	Hedging reserve \$'000	Employee share option reserve \$'000	Revenue reserve \$'000	Total equity \$'000
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### Company - 2006

<b>At 1.1.2006</b>	25,728	62,693	379	2,852	56,570	148,222
Effects of Companies (Amendment) Act 2005	62,693	(62,693)	-	-	-	-
Issuance of shares for cash under Employees' Share Option Scheme	1,121	-	-	-	-	1,121
Net fair value gain of derivative financial instruments	-	-	232	-	-	232
Cost of share-based payments	-	-	-	1,151	-	1,151
Net loss for the period	-	-	-	-	(2,276)	(2,276)
<b>At 31.3.2006</b>	<b>89,542</b>	<b>-</b>	<b>611</b>	<b>4,003</b>	<b>54,294</b>	<b>148,450</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**

1. During the financial period, 772,000 new ordinary shares were issued pursuant to options exercised under the Hyflux Employee Shares Option Scheme ("Scheme").
2. During the financial period, no options were granted under the Scheme.
3. As at 31 Mar 2007, the number of outstanding and unexercised Options granted under the Scheme was 21,277,843 (31 Mar 2006: 22,837,343).

**2. Whether the figures have been audited, or reviewed and in accordance with which standard (e.g. the Singapore Standard on Review Engagement 2410, Review of Interim Financial Information Performed by Independent Auditors of the Entity**

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 Group and the Company have consistently applied the same accounting policies and methods of computation as in their most recently audited annual financial statements.

**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**

	<b>Jan - Mar 2007 Cents</b>	<b>Jan - Mar 2006 Cents</b>
<b>Earnings per ordinary share after deducting any provision for preference dividends were:</b>		
Based on the weighted average of 519,405,527 (31 Mar 2006: 515,349,527) ordinary shares in issue; and	0.24	1.86
On a fully diluted basis of 523,944,252 (31 Mar 2006: 527,531,444) shares	0.24	1.82

**7. 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**

### **7(a) Profit and Loss Account Analysis**

#### Revenue

For the three months ended 31 March 2007, the Group's revenue were lower by 60% to S\$13.4 million, compared to S\$33.7 million for the previous corresponding period.

Municipal sales were lower by 69% to S\$4.6 million for this quarter from S\$15.0 million for the previous corresponding period mainly due to full elimination of the EPC revenue under SinoSpring as a result of the increase in equity stake in SinoSpring Utility Ltd ("SinoSpring") from 50% to 80% since July 2006. Lower municipal revenue in Singapore in line with the partial divestment of SingSpring as well as lower revenue from the Middle East.

Industrial sales were lower by 53% to S\$8.7 million from S\$18.4 million as a result of the lead time between new contracts signed and execution and delivery of these new projects, and there were no technology license fee this quarter as compared to the S\$ 4.9 million recognised in the previous corresponding period.

China continued to be the main revenue driver, contributing 67% of total revenue for the current three months. This remain consistent with prior year where China contributed 65% of total revenue. In line with the restructuring of the investments in Middle East, Middle East/Others accounted for 4% of total revenue, down from 21% in 1Q2006.

#### Costs and Expenses

Raw materials and consumables decreased by 58% to S\$5.0 million from S\$11.8 million in line with lower revenue.

Personnel expenses declined marginally by 7% to S\$5.0 million from S\$5.4 million for the previous corresponding period. Cost of share-based payments decreased by 39% to S\$0.7 million from S\$1.2 million for the previous corresponding period. The Group continues to invest in human capital which is necessary to support the Group's expansion plans into China, India, MENA and oil recycling businesses.

Other operating expenses rose by 24% to S\$3.4 million due to the increase in commitment fees for the drawdown of term loan this quarter, allowance for doubtful debts as well as the higher travelling expenses incurred in line with the Group's expansion plans.

Depreciation and amortisation increased by 63% from S\$1.0 million to S\$1.6 million this quarter due to the increase in property, plant and equipment and intangible assets from the previous financial year.

During this quarter, the Group recorded a S\$8.1 million gain on partial sale of its 50% joint venture, SingSpring Pte Ltd ("SingSpring") which owns a seawater desalination plant. Subsequent to the divestment in February 2007, the Group holds 30% interest in the desalination plant via SingSpring Trust.

The financial income decreased by 54% from S\$0.7 million to S\$0.3 million. The decrease in financial income is due to the decrease in interest income earned from the lower fixed deposits held with banks.

Financial expenses increased by 9% from S\$1.2 million to S\$1.3 million due to the higher net financial expenses incurred during this quarter.

The Group has transferred an amount of S\$3.3 million in the hedging reserve, due to the realisation of hedging instruments, to the profit and loss account.

Share of results of associates amounted to S\$0.7 million for this quarter as the Group equity accounted its share of profits from the SingSpring desalination plant since its divestment in February 2007.

Tax expense decreased marginally by 12% this quarter as compared to a year ago due to the lower profits this quarter. The effective tax rate for this quarter increased to 46% from 12% in the previous corresponding period mainly due to certain expenses not being deductible for income tax purposes and the ineligibility to set-off losses in certain subsidiaries where group reliefs are not available against other profitable subsidiaries.

Overall, the net impact of the above resulted in lower net profits for the Group of S\$1.4 million

#### Earnings Per Share

Basic earnings per share decreased from 1.86 cents to 0.24 cents. The fully diluted earnings per share has also decreased from 1.82 cents to 0.24 cents as compared to the corresponding period in the preceding period. The decrease is due to the lower profit this quarter.

### **7(b) Balance Sheets Analysis**

#### **Group**

##### Non-Current Assets

Non-current assets decreased by S\$79.5 million or 32% compared to 31 December 2006 due mainly to the divestment of SingSpring desalination plant in February 2007, which resulted in a substantial decrease in lease receivables amounting to approximately S\$100 million. This decrease was offset by the increase in property, plant and equipment of about S\$3.7 million and acquisitions of intangible assets of about S\$1.2 million.

Due to a change in status of SingSpring from joint venture to associate, the Group ceases to proportionate consolidate the results of SingSpring. Instead, the Group now equity account the profit for SingSpring, resulting in an increase in investment in associate of S\$16.2 million.

##### Working Capital

Total current assets reduced marginally by 5% to S\$185.6 million from S\$194.5 million mainly due to the decrease in cash and fixed deposits of S\$23.7 million.

As at 31 March 2007, other receivables, deposits and prepayments included S\$12.4 million trade deposits for upcoming projects and advances to suppliers. Such deposits and advances increased by S\$7.7 million as compared to 31 December 2006.

Total current liabilities decreased by 38% to S\$63.6 million from S\$102.4 million mainly due to the repayment of interest-bearing loan of about S\$32.9 million, reduction of deferred income of S\$4.0 million, and the reduction in derivative financial instrument of S\$5.0 million due to the divestment of SingSpring. This decrease was offset by the increase of S\$5.7 million in advances from customers for contracts awarded to the Group.

Overall, working capital increased by 33% to S\$122.1 million from S\$92.1 million.

### Non-Current Liabilities

Non-current liabilities decreased by 47% to S\$63.3 million from S\$119.1 million due to the divestment of SingSpring which resulted in a reduction of interest-bearing loan of approximately S\$76.0 million as compared to 31 December 2006. This decrease was offset by the additional S\$20.0 million drawdown of bank loan this quarter.

### Shareholders' Equity

Shareholders' equity increased by S\$6.1 million or 3% to S\$207.2 million from S\$201.1 million as of 31 December 2006 mainly due to the S\$3.3 million reversal of hedging reserves to the profit and loss account.

### Debt to Equity Ratio

The net debt to equity ratio for the Group decreased to 0.12 as of March 2007 from 0.43 as of December 2006 due to the reduced Group borrowings as a result of the divestment in SingSpring.

## **Balance Sheet – Company**

Non-current assets decreased by 7% to S\$138.0 million from S\$147.8 million due to the reduction in shareholdings in SingSpring from 50% to 30%.

Increase in current assets of S\$7.0 million or 10% to S\$76.1 million from S\$ 69.1 million is mainly due to the increase in inventory purchases of about S\$2.4 million, as well as an increase in S\$4.3 million due from related parties.

Current liabilities decreased to S\$4.5 million from S\$36.0 million as at 31 December 2006 is mainly due to the repayment of bank loan of approximately S\$31.0 million.

Non-current liabilities increased to S\$56.7 million from S\$36.7 million as a result of the additional S\$20.0 million drawdown of bank loan during this quarter.

Shareholders' equity for the Company increased by S\$8.5 million to S\$152.8 million mainly due to the net profits for the Company for this quarter.

## **Cashflow Statement**

The Group's cash position as of 31 March 2007 was S\$32.1 million, down by S\$27.5 million compared to 31 March 2006.

Net cash used in operations increased by 11% to S\$24.2 million compared to S\$21.9 million last year, due mainly to the increase in advances to suppliers as well as deposits made for upcoming projects. Cash generated from investing activities amounted to S\$11.6 million, as compared to the cash used in investing activities of S\$13.4 million a year ago. The cash inflows from investing activities this quarter is due mainly to the proceeds received from the sale of partial interest in SingSpring amounting to S\$16.0 million.

Cash used in financing activities approximates S\$10.9 million this quarter as compared to the cash generated from financing activities of S\$0.9 million a year ago due to the repayment of the short-term loans of S\$32.0 and the drawdown of term loans of S\$21.8 million in this quarter.

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

Not applicable.

**9. 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 fundamentals of the Group remain strong. Looking ahead, Hyflux remains optimistic about the macro environment on the water treatment and wastewater and used oil recycling sectors especially in Asia and the Middle East region.

With the upward trend of the commodity metal prices, the Group expects pressure on material costs. Further increase in these prices may affect the Group's gross margin in the coming quarters.

**Municipal Sector**

Singapore

With the divestment of 20% interest in SingSpring to the SingSpring Trust, the Group now equity account 30% of the profits of the SingSpring Trust. The Group will continue to operate and generate maintenance income, through its wholly-owned subsidiary, Hyflux Engineering Pte Ltd till year 2025.

In addition to the portfolio which Hyflux has secured over the years, the Group is focusing on growth markets such as China, India and the MENA region where Hyflux's competitive edge can be leveraged.

China

China government's intervention through enforcement of the Water Resource Law (2002) has resulted in huge demand for new water infrastructure, operations and maintenance of water and wastewater treatment plants. Regulatory changes, as well as scarcity of capital and technology has created and is expected to continue to create significant opportunities for the Group.

The Group has been awarded a total of 20 projects and developing an additional 30 projects in seawater desalination, water and wastewater treatment and recycling for the municipal government and industrial park owners. It has delivered 4 wastewater treatment projects, which are now fully operational and another 3 to 4 projects are expected to be completed by end of year.

The MENA Region

The Group has executed the Joint Venture Agreement for the Consortium partners and are in progress to finalise the various contracts relating to the US\$206 million of EPC contract to design and build a 200MLD desalination plant in Algeria. The Consortium is in the process of negotiating the financial close. The project is expected to complete within 24 months from financial close.

Currently, the Group is also pursuing other projects in Algeria and the MENA region.

**Industrial Sector**



The orders from Industrial sector remained strong as the Group secured a number of new contracts in 1Q07. The strong orders were underpinned by the Group's competitive solutions using a wide range of membranes to customers in various sectors. Revenue from a quarter-to-quarter basis is expected to be impacted by the stage of completion of various projects.

### **Consumer Sector**

On 22 January 2007, the Group announced 2 joint venture agreements with Marmon Water LLC, one of the world's largest manufacturers of residential and commercial water treatment systems. The Group is in progress to set up the R&D centre in Singapore to develop innovative and affordable products for both the residential and commercial applications for sale in emerging as well as mature markets. The manufacturing facility in China is expected to complete by 2nd half of the year.

### **Used oil recovery Sector**

The Group is committed to invest substantially in human capital and infrastructure to capture opportunities offered in the used oil recovery sector. Our considerable investment in the used oil business in year 2006 and 2007 is expected to start yielding results in year 2008.

On May 8 2007, Hyflux signed a shareholder's agreement with SEDCO (Saudi Economic Development Company) and LUBREC (Lube Oil Re-refining Co) to jointly invest S\$45 million to build and own a used-oil recycling plant in Jeddah, Saudi Arabia. This is our first footprint into Saudi Arabia and when completed will be the first membrane based used oil recycling centre in Saudi Arabia to treat and recycle used oil to produce high grade base oil.

As the Singapore used oil recycling facility is of limited capacity, Hyflux is planning second phase of used oil recycling in new facility in Singapore. At the same time, Hyflux is also developing three other projects in Malur of Bangalore, India, Beijing and Taizhou in China. The addition of the three facilities will boost the current limited capacity for the Group.

The total investment for the all five projects is estimated to be in the region of S\$100 million.

### **Funding**

The Group has also successfully achieved a major milestone in our asset-light strategy following the completion of the restructuring by divesting 20% interest in SingSpring plant to SingSpring Trust. As a result of the divestment, the net debt-equity ratio has decreased to 0.12 as of March 2007 from 0.43 as of December 2006 and the Group's balance sheet remains healthy with strong capacity for growth.

Moving forward, the possible injection of SinoSpring projects to a trust structure will enable the Group to fuel the growth of our strong pipeline of BOO/BOT projects when these project values are unlocked and capital re-deployed for the Group's business activities.

The Group intends to make further investments in its core business to expand into new markets and applications of our membrane technology. Such investments are necessary to generate future income for the Group.

**10. 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

***(c) Date payable***

Not applicable

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

Not applicable

**11. If no dividend has been declared/recommendeded, a statement to that effect**

Not applicable

**12. Confirmation by the Board**

The directors of the Company confirm that to the best of their knowledge, nothing has come to their attention which may render the 1QFY2007 financial results to be false or misleading in any material respect.

**BY ORDER OF THE BOARD**

Grace Goh  
Company Secretary  
15 May 2007