



HYFLUX LTD

Registration number : 200002722Z

## Unaudited Financial Statements For Second Quarter And Half Year Ended 30 June 2008

The Directors of Hyflux Ltd wish to announce the unaudited results of the Group for second quarter and half year ended 30 June 2008.

### 1 (a)(i) CONSOLIDATED INCOME STATEMENT for second quarter and half year ended 30 June 2008

	<u>The Group</u>					
	<u>Quarter ended 30 Jun</u>			<u>Half year ended 30 Jun</u>		
	2008	2007	Change	2008	2007	Change
	S\$'000	S\$'000	%	S\$'000	S\$'000	%
		(Restated)			(Restated)	
<b>Revenue</b>	<b>108,050</b>	45,201	<b>139%</b>	<b>197,652</b>	62,709	<b>215%</b>
Raw materials and consumables	(55,860)	(28,332)	<b>97%</b>	(124,581)	(37,324)	<b>234%</b>
Personnel expenses	(12,943)	(6,404)	<b>102%</b>	(22,222)	(11,382)	<b>95%</b>
Cost of share-based payment	(913)	(840)	<b>9%</b>	(1,929)	(1,543)	<b>25%</b>
Depreciation and amortisation	(1,903)	(1,959)	<b>(3%)</b>	(3,995)	(3,567)	<b>12%</b>
Gain on sale of partial interest in a joint venture [Note 1 (a)(iii)]	-	96	<b>NM</b>	-	8,185	<b>NM</b>
Net gain/(loss) on sale of property, plant and equipment	16	50	<b>NM</b>	(47)	124	<b>NM</b>
Finance income	874	527	<b>66%</b>	1,405	1,110	<b>27%</b>
Finance expenses	(1,758)	(893)	<b>97%</b>	(3,839)	(2,570)	<b>49%</b>
Fair value loss on derivative financial instruments	(169)	(128)	<b>32%</b>	(338)	(3,062)	<b>(89%)</b>
Share of (loss)/profit of associates	(457)	(747)	<b>39%</b>	10	(88)	<b>112%</b>
Other operating expenses	(7,843)	(3,083)	<b>154%</b>	(9,459)	(6,583)	<b>44%</b>
Negative goodwill on acquisition of business	-	2,620	<b>NM</b>	-	2,620	<b>NM</b>
<b>Profit before taxation</b>	<b>27,094</b>	6,108	<b>344%</b>	<b>32,657</b>	8,629	<b>278%</b>
Taxation	(3,203)	20	<b>NM</b>	(2,071)	(1,198)	<b>NM</b>
<b>Profit after taxation</b>	<b>23,891</b>	6,128	<b>290%</b>	<b>30,586</b>	7,431	<b>312%</b>
<b>Attributable to:</b>						
Shareholders of the Company	22,558	5,489	<b>311%</b>	28,300	6,649	<b>326%</b>
Minority interests	1,333	639	<b>109%</b>	2,286	782	<b>192%</b>
	<b>23,891</b>	6,128	<b>290%</b>	<b>30,586</b>	7,431	<b>312%</b>

NM: Not meaningful

## NOTES TO CONSOLIDATED INCOME STATEMENT

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

	<u>The Group</u>			
	<u>Quarter ended 30 Jun</u>		<u>Half year ended 30 Jun</u>	
	2008	2007	2008	2007
	S\$'000	S\$'000	S\$'000	S\$'000
(Impairment)/write back of trade and other receivables	(16)	141	(20)	(156)
Write back of /(provision for) inventory obsolescence and inventory written down	6	(8)	5	(155)
Foreign exchange gain / (loss) - net	501	135	5,586	(107)

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

	<u>The Group</u>			
	<u>Quarter ended 30 Jun</u>		<u>Half year ended 30 Jun</u>	
	2008	2007	2008	2007
	S\$'000	S\$'000	S\$'000	S\$'000
Cash received from sale	-	96	-	17,717
Less:				
Cost of investment disposed of	-	-	-	(8,000)
Post acquisition profits of investment disposed of	-	-	-	(1,389)
Legal and other professional fees incurred pursuant to the disposal	-	-	-	(143)
<b>Gain on sale of partial interest in a joint venture</b>	<b>-</b>	<b>96</b>	<b>-</b>	<b>8,185</b>

## 1(b)(i) BALANCE SHEETS

	The Group		The Company	
	30 Jun 08	31 Dec 07	30 Jun 08	31 Dec 07
	S\$'000	S\$'000	S\$'000	S\$'000
<b><u>Non-current assets</u></b>				
Property, plant and equipment	111,633	62,573	8	7,612
Investment property	2,309	2,373	-	-
Intangible assets	53,415	40,499	3,866	4,182
Investments in subsidiaries	-	-	135,934	134,377
Investments in joint venture	-	-	2,375	1,125
Investments in associates	115,041	100,064	12,440	12,277
Long term investments	908	7,917	899	899
Financial and lease receivables	51,407	9,570	-	-
Other receivables	3,205	-	-	-
Due from related parties (non-trade)	22,311	-	17,718	18,833
Deferred tax assets	1,570	1,218	-	-
<b>Total non-current assets</b>	<b>361,799</b>	<b>224,214</b>	<b>173,240</b>	<b>179,305</b>
<b><u>Current assets</u></b>				
Gross amounts due for contract work	51,099	93,257	1,015	9,527
Inventories	22,655	20,641	-	17,498
Trade receivables	116,331	46,110	890	1,148
Financial and lease receivables	1,246	187	-	-
Other receivables and deposits	35,789	31,740	2,608	3,377
Prepayments	19,416	6,582	1,427	1,327
Due from related parties (trade)	40,209	15,216	20,947	22,673
Due from related parties (non-trade)	7,422	4,787	247,602	155,412
Cash and fixed deposits	93,631	121,047	1,942	6,074
<b>Total current assets</b>	<b>387,798</b>	<b>339,567</b>	<b>276,431</b>	<b>217,036</b>
<b><u>Current liabilities</u></b>				
Trade payables	157,321	55,022	23	1,172
Other payables and accruals	43,044	17,747	789	3,216
Progress payments from customers	16,554	25,989	2,069	2,080
Interest-bearing loans and borrowings	945	5,245	-	5,000
Finance lease liabilities	119	104	-	-
Deferred income	14,140	14,281	-	88
Due to related parties (trade)	2,427	-	873	845
Due to related parties (non-trade)	2,851	1,796	64,157	36,741
Tax payable	1,466	202	-	-
<b>Total current liabilities</b>	<b>238,867</b>	<b>120,386</b>	<b>67,911</b>	<b>49,142</b>
<b>Net current assets</b>	<b>148,931</b>	<b>219,181</b>	<b>208,520</b>	<b>167,894</b>
<b><u>Non-current liabilities</u></b>				
Interest-bearing loans and borrowings	231,861	193,266	230,076	190,596
Finance lease liabilities	125	187	-	-
Deferred tax liabilities	5,175	2,875	159	159
<b>Total non-current liabilities</b>	<b>237,161</b>	<b>196,328</b>	<b>230,235</b>	<b>190,755</b>
<b>Net assets</b>	<b>273,569</b>	<b>247,067</b>	<b>151,525</b>	<b>156,444</b>

	<u>The Group</u>		<u>The Company</u>	
	<u>30 Jun 08</u>	<u>31 Dec 07</u>	<u>30 Jun 08</u>	<u>31 Dec 07</u>
	<u>S\$'000</u>	<u>S\$'000</u>	<u>S\$'000</u>	<u>S\$'000</u>
<b><u>Equity attributable to shareholders of the Company</u></b>				
Share capital	<b>98,932</b>	95,820	<b>98,932</b>	95,820
Capital reserves	<b>1,064</b>	1,064	-	-
Foreign currency translation reserve	<b>(2,642)</b>	(1,815)	-	-
Hedging reserve	<b>(2,546)</b>	(4,222)	-	-
Employee share option reserve	<b>11,348</b>	9,419	<b>11,348</b>	9,419
Revenue reserve	<b>157,897</b>	139,506	<b>41,245</b>	51,205
Shareholders' equity	<b>264,053</b>	239,772	<b>151,525</b>	156,444
Minority interests	<b>9,516</b>	7,295	-	-
<b>Total equity</b>	<b>273,569</b>	247,067	<b>151,525</b>	156,444
<i>Group net borrowings (S\$)</i>	<b>139,419</b>	77,755	n.a.	n.a.
<i>Group net gearing (times)</i>	<b>0.51x</b>	0.32x	n.a.	n.a.

## NOTES TO BALANCE SHEETS

### 1(b)(ii) Group's borrowings and debt securities

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

30 Jun 08		31 Dec 07	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
819	245	104	5,245

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

30 Jun 08		31 Dec 07	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
1,691	230,295	2,857	190,596

#### Details of any collateral

A subsidiary's bank loan is secured by a lien over its inventories and receivables and partially guaranteed by a Director of the subsidiary and a subsidiary.

**1(c) CONSOLIDATED CASH FLOW STATEMENT**  
**for second quarter and half year ended 30 June 2008**

	<u>The Group</u>			
	<u>Quarter ended 30 Jun</u>		<u>Half year ended 30 Jun</u>	
	2008	2007	2008	2007
	S\$'000	S\$'000	S\$'000	S\$'000
		(Restated)		(Restated)
<b>Cash flows from operating activities</b>				
Profit before taxation	27,094	6,108	32,657	8,629
Adjustments:				
Cost of share-based payment	913	840	1,929	1,543
Fair value loss on derivative financial instruments	169	128	338	3,062
Gain on sale of partial interest in a joint venture	-	(96)	-	(8,185)
Net (gain)/loss on sale of property, plant and equipment	(16)	(50)	47	(124)
Share of loss/(profit) of associates	457	747	(10)	88
Depreciation and amortisation	1,903	1,959	3,995	3,567
Finance expenses	1,758	893	3,839	2,570
Finance income	(874)	(527)	(1,405)	(1,110)
Negative goodwill on acquisition of business	-	(2,620)	-	(2,620)
Impairment /(write back) of trade and other receivables	16	(141)	20	156
(Write back of)/provision for inventory obsolescence and inventory written down	(6)	8	(5)	155
Operating cash flows before working capital changes	<u>31,414</u>	<u>7,249</u>	<u>41,405</u>	<u>7,731</u>
Working Capital Changes :				
Inventories	(895)	(3,066)	(2,034)	(5,885)
Gross amounts due for contract work	22,421	(14,627)	42,158	(16,348)
Trade receivables	(56,693)	1,504	(73,443)	(4,563)
Financial and lease receivables	(28,995)	(8,657)	(41,125)	(8,439)
Other receivables, deposits and prepayments	(5,354)	(5,653)	(16,640)	(21,128)
Due from related parties (trade)	(12,064)	(5,323)	(22,566)	(3,740)
Trade payables	41,532	8,154	102,300	8,364
Other payables and accruals	35,022	1,850	28,101	548
Progress payments from customers	(9,968)	17,192	(9,436)	23,216
Deferred income	34	2,166	(140)	(2,064)
Total working capital changes	<u>(14,960)</u>	<u>(6,460)</u>	<u>7,175</u>	<u>(30,039)</u>
Cash generated from / (used in) operating activities	16,454	789	48,580	(22,308)
Tax refunded/(paid)	272	(367)	617	(968)
<b>Net cash generated from / (used in) operating activities</b>	<u>16,726</u>	<u>422</u>	<u>49,197</u>	<u>(23,276)</u>

	<b>The Group</b>			
	<b>Quarter ended 30 Jun</b>		<b>Half year ended 30 Jun</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>S\$'000</b>	<b>S\$'000</b>	<b>S\$'000</b>	<b>S\$'000</b>
		<b>(Restated)</b>		<b>(Restated)</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	<b>(30,506)</b>	(6,197)	<b>(53,992)</b>	(8,489)
Acquisition of intangible assets	<b>(11,838)</b>	(2,541)	<b>(13,835)</b>	(4,316)
Sale of a joint venture, net of cash disposed [Note 1(c)(i)]	-	96	-	16,059
Proceeds from sale of property, plant and equipment	<b>5</b>	38	<b>6</b>	112
Long term investments	-	(2)	-	(1,083)
Deposit for purchase of land	-	(21,403)	-	(21,403)
Acquisition of associates	<b>(2,928)</b>	(1,484)	<b>(7,484)</b>	(1,484)
Acquisition of business [(Note 1(c)(ii)]	-	(6,921)	-	(6,921)
Due from related parties (non-trade)	<b>(52)</b>	(234)	<b>(23,892)</b>	(303)
Dividends received from associates	<b>741</b>	-	<b>741</b>	-
Interest received	<b>874</b>	527	<b>1,405</b>	1,110
<b>Net cash used in investing activities</b>	<b>(43,704)</b>	(38,121)	<b>(97,051)</b>	(26,718)
<b>Cash flows from financing activities</b>				
Proceeds from issuance of new shares under Employee's Share Option Scheme	<b>1,852</b>	701	<b>3,113</b>	1,407
Proceeds from borrowings	<b>39,184</b>	60,037	<b>47,748</b>	81,696
Repayment of borrowings	<b>(4,647)</b>	-	<b>(13,452)</b>	(31,848)
Repayment of lease liabilities	<b>(36)</b>	(63)	<b>(46)</b>	(127)
Interest paid	<b>(3,907)</b>	(893)	<b>(6,400)</b>	(2,570)
Payments of dividends	<b>(9,909)</b>	(7,016)	<b>(9,909)</b>	(7,016)
<b>Net cash generated from financing activities</b>	<b>22,537</b>	52,766	<b>21,054</b>	41,542
<b>Net (decrease)/ increase in cash and cash equivalents</b>	<b>(4,441)</b>	15,067	<b>(26,800)</b>	(8,452)
<b>Cash and cash equivalents at beginning of the period</b>	<b>97,967</b>	32,087	<b>121,047</b>	55,827
Effect of exchange rate changes	<b>105</b>	2,014	<b>(616)</b>	1,793
<b>Cash and cash equivalents at end of the period</b>	<b>93,631</b>	49,168	<b>93,631</b>	49,168

## NOTES TO CONSOLIDATED CASH FLOW STATEMENT

### 1(c)(i) The values of assets and liabilities of a joint venture disposed of were as follows :

	Quarter ended 30 Jun		Half year ended 30 Jun	
	2008 S\$'000	2007 S\$'000	2008 S\$'000	2007 S\$'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>
Gain on partial disposal	-	96	-	8,185
Professional fees incurred	-	-	-	143
Cash proceeds from sale	-	96	-	17,717
Less: Professional fees incurred	-	-	-	(143)
Less: Cash in joint venture	-	-	-	(1,515)
<b>Cash inflow on partial sale of interest in a joint venture</b>	-	<b>96</b>	-	<b>16,059</b>

### 1(c)(ii) The values of assets and liabilities of business acquired were as follows :

	Quarter ended 30 Jun		Half year ended 30 Jun	
	2008 S\$'000	2007 S\$'000	2008 S\$'000	2007 S\$'000
Non-current assets	-	24,364	-	24,364
Non-current liabilities	-	(873)	-	(873)
	-	23,491	-	23,491
Negative goodwill	-	(2,620)	-	(2,620)
Purchase consideration	-	20,871	-	20,871
Less: Payable for acquisition of business	-	(13,950)	-	(13,950)
<b>Cash outflow on acquisition of business</b>	-	<b>6,921</b>	-	<b>6,921</b>



## 1 (d)(i) STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company							Minority interests	Total equity
	Share capital	Capital reserves	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		
<b>The Group – 2008</b>									
<b>At 1.1.2008</b>	95,820	1,064	(1,815)	(4,222)	9,419	139,506	239,772	7,295	247,067
Net fair value loss on derivative financial instruments	-	-	-	(718)	-	-	(718)	-	(718)
Foreign currency translation differences	-	-	(3,049)	-	-	-	(3,049)	(173)	(3,222)
<b>Net expense recognised directly in equity</b>	-	-	(3,049)	(718)	-	-	(3,767)	(173)	(3,940)
Net profit for the period	-	-	-	-	-	5,742	5,742	953	6,695
<b>Total recognised income / (expense) for the period</b>	-	-	(3,049)	(718)	-	5,742	1,975	780	2,755
Issue of shares for cash under Employees' Share Option Scheme	1,261	-	-	-	-	-	1,261	-	1,261
Cost of share-based payment	-	-	-	-	1,016	-	1,016	-	1,016
<b>At 31.3.2008</b>	<b>97,081</b>	<b>1,064</b>	<b>(4,864)</b>	<b>(4,940)</b>	<b>10,435</b>	<b>145,248</b>	<b>244,024</b>	<b>8,075</b>	<b>252,099</b>
Net fair value gain on derivative financial instruments	-	-	-	2,394	-	-	2,394	-	2,394
Foreign currency translation differences	-	-	2,222	-	-	-	2,222	108	2,330
<b>Net income recognised directly in equity</b>	-	-	2,222	2,394	-	-	4,616	108	4,724
Net profit for the period	-	-	-	-	-	22,558	22,558	1,333	23,891
<b>Total recognised income for the period</b>	-	-	2,222	2,394	-	22,558	27,174	1,441	28,615
Issue of shares for cash under Employees' Share Option Scheme	1,851	-	-	-	-	-	1,851	-	1,851
Cost of share-based payment	-	-	-	-	913	-	913	-	913
Dividends	-	-	-	-	-	(9,909)	(9,909)	-	(9,909)
<b>At 30.6.2008</b>	<b>98,932</b>	<b>1,064</b>	<b>(2,642)</b>	<b>(2,546)</b>	<b>11,348</b>	<b>157,897</b>	<b>264,053</b>	<b>9,516</b>	<b>273,569</b>

**Attributable to shareholders of the Company**

	Share capital	Capital reserves	Foreign currency translation reserve	Hedging reserve	Employee share option reserve	Revenue reserve	Total	Minority interests	Total equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
<b>The Group – 2007 (Restated)</b>									
<b>At 1.1.2007</b>	91,142	987	(4,550)	(7,839)	6,288	115,054	201,082	18,553	219,635
Adoption of INT FRS 112	-	-	-	-	-	(1,481)	(1,481)	(88)	(1,569)
<b>As restated</b>	91,142	987	(4,550)	(7,839)	6,288	113,573	199,601	18,465	218,066
Recognised in income statement on maturity of financial instruments	-	-	-	3,752	-	-	3,752	-	3,752
Foreign currency translation differences	-	-	(301)	-	-	-	(301)	(27)	(328)
<b>Net income / (expense) recognised directly in Equity</b>	-	-	(301)	3,752	-	-	3,451	(27)	3,424
Net profit for the period	-	-	-	-	-	1,160	1,160	143	1,303
<b>Total recognised income / (expense) for the period</b>	-	-	(301)	3,752	-	1,160	4,611	116	4,727
Issue of shares for cash under Employees' Share Option Scheme	706	-	-	-	-	-	706	-	706
Cost of share-based payment	-	-	-	-	703	-	703	-	703
<b>At 31.3.2007</b>	<b>91,848</b>	<b>987</b>	<b>(4,851)</b>	<b>(4,087)</b>	<b>6,991</b>	<b>114,733</b>	<b>205,621</b>	<b>18,581</b>	<b>224,202</b>
Recognised in income statement on maturity of financial instruments	-	-	-	(777)	-	-	(777)	-	(777)
Foreign currency translation differences	-	-	2,829	-	-	-	2,829	496	3,325
<b>Net income / (expense) recognised directly in Equity</b>	-	-	2,829	(777)	-	-	2,052	496	2,548
Net profit for the period	-	-	-	-	-	5,489	5,489	639	6,128
<b>Total recognised income / (expense) for the period</b>	-	-	2,829	(777)	-	5,489	7,541	1,135	8,676
Issue of shares for cash under Employees' Share Option Scheme	701	-	-	-	-	-	701	-	701
Cost of share-based payment	-	-	-	-	840	-	840	-	840
Dividends	-	-	-	-	-	(7,016)	(7,016)	-	(7,016)
<b>At 30.6.2007</b>	<b>92,549</b>	<b>987</b>	<b>(2,022)</b>	<b>(4,864)</b>	<b>7,831</b>	<b>113,206</b>	<b>207,687</b>	<b>19,716</b>	<b>227,403</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**

- For the second quarter ended 30 Jun 2008, 1,056,000 new ordinary shares were issued pursuant to options exercised under the Hyflux Employee Shares Option Scheme ("Scheme") (second quarter ended 30 Jun 2007: 1,740,500). For the first half year ended 30 Jun 2008, 1,792,000 shares were issued pursuant to the Scheme (first half year ended 30 Jun 2007: 2,512,500).
- During this quarter, 3,610,000 share options were granted under the Scheme (second quarter ended 30 Jun 2007: 2,120,000). For the first half year ended 30 Jun 2008, 3,610,000 share options were granted under the Scheme (first half year ended 30 Jun 2007: 2,120,000).
- As at 30 Jun 2008, the number of outstanding and unexercised options granted under the Scheme was 22,894,343 (30 Jun 2007: 21,573,593).
- As at 30 Jun 2008, the Group is not holding any treasury shares (30 Jun 2007: Nil).

**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 the most recently audited annual financial statements.

Comparative figures in the financial statements have been restated from the previous year to reflect the adoption of the following new and revised accounting standards on 1 January 2007:

- FRS 40 Investment Property
- INT FRS 112 Service Concession Arrangements

**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**

There are no changes in the accounting policies and methods of computation.

**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**

Earnings per ordinary share after deducting any provision for preference dividends were:

	<u>Quarter ended 30 Jun</u>		<u>Half year ended 30 Jun</u>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>Cents</b>	<b>Cents</b>	<b>Cents</b>	<b>Cents</b>
		<b>(Restated)</b>		<b>(Restated)</b>
Based on the weighted average of 524,273,193 (30 Jun 2007: 519,897,277) ordinary shares in issue; and	4.30	1.06	5.40	1.28
On a fully diluted basis of 529,788,280 (30 Jun 2007: 525,185,551) ordinary shares	<u>4.26</u>	<u>1.05</u>	<u>5.34</u>	<u>1.27</u>

**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 financial period reported on and (b) immediately preceding financial year.**

	<b>30 Jun 08</b>	<b>31 Dec 07</b>
	<b>Cents</b>	<b>Cents</b>
<b>Net assets value per ordinary share of:</b>		
Group	50.3	45.7
Company	<u>28.9</u>	<u>30.0</u>

**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**

**8(a) Income Statement Analysis**

**Second quarter review**

The Group achieved revenue of \$108.1 million and four times higher profit after tax and minority interests of \$22.6 million for the second quarter of 2008 compared to the previous corresponding quarter.

Revenue

The Group's revenue increased by more than two times to \$108.1 million compared to the previous corresponding quarter due to strong performance in the municipal sector.

Municipal sales increased more than eight times from \$10.0 million to \$86.7 million. Sales in China accounted for 61% of total revenue, while MENA contributed approximately 34% of total revenue for the quarter ended 30 Jun 2008. This was offset by the decrease in industrial sales, mainly due to timing differences on the completion of projects.

### Costs and expenses

Raw materials and consumables increased from \$28.3 million for the quarter ended 30 Jun 2007 to \$55.9 million for the quarter ended 30 Jun 2008 in line with the increase in sales volume.

Personnel expenses increased from \$6.4 million for the quarter ended 30 Jun 2007 to \$12.9 million for the quarter ended 30 Jun 2008 in line with the increase in headcount to support growth.

Finance expenses increased by 97% to \$1.8 million this quarter due to the higher interest expenses on increased bank borrowings as compared to the previous corresponding quarter.

Other operating expenses increased from \$3.1 million for the quarter ended 30 Jun 2007 to \$7.8 million for the quarter ended 30 Jun 2008 in line with the increase in sales volume.

The tax charge for the quarter ended 30 Jun 2008 was lower than the amount that would arise by applying the Singapore corporate tax rate mainly due to the tax exemptions and incentives enjoyed by certain entities in the Group.

### **First half year review**

The Group recorded a sales turnover of \$197.7 million and a net profit after tax and minority interests of \$28.3 million for the first half of 2008.

### Revenue

For the half year ended 30 Jun 2008, the Group's revenue increased more than three times to \$197.7 million as compared to \$62.7 million for the previous corresponding period.

Municipal sales grew significantly more than eight times from \$18.7 million to \$157.0 million. This contributed 80% to the Group's revenue. Sales in China accounted for 50% of total revenue, while MENA contributed approximately 44% of total revenue for the half year ended 30 Jun 2008.

### Costs and expenses

Raw materials and consumables increased from \$37.3 million for the half year ended 30 Jun 2007 to \$124.6 million for the half year ended 30 Jun 2008 in line with the increase in sales volume and the increase in cost of construction materials for industrial and EPC projects.

Personnel expenses increased from \$11.4 million for the half year ended 30 Jun 2007 to \$22.2 million for the half year ended 30 Jun 2008 in line with the increase in headcount to support growth.

Finance expenses increased by 49% to \$3.8 million this quarter due to the higher interest expenses on increased bank borrowings as compared to the previous corresponding period.

Fair value loss on financial instrument derivative was reduced by 89% to \$0.3 million in this period as compared to 2007. There was a transfer of \$3.3 million from the hedging reserve related to SingSpring plant to the income statement in 2007 in relation to the partial divestment of the SingSpring plant.

The tax charge for the half year ended 30 Jun 2008 was lower than the amount that would arise by applying the Singapore corporate tax rate mainly due to the tax exemptions and incentives enjoyed by certain entities in the Group.

### **Earnings Per Share**

#### Second quarter

Basic and fully diluted earnings per share for second quarter increase four times to 4.30 cents and 4.26 cents respectively compared to preceding year corresponding quarter.

### First half year

Basic and fully diluted earnings per share for first half year increase four times to 5.40 cents and 5.34 cents respectively compared to preceding year corresponding period.

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

### **The Group**

The Group's shareholders' equity increased to \$264.1 million as at 30 Jun 2008 from \$239.8 million as at 31 Dec 2007. The increase was mainly attributable to the net profit for the first half of the financial year.

Current assets increased to \$387.8 million as at 30 Jun 2008 from \$339.6 million as at 31 Dec 2007 mainly due to increase in trade receivables which was in line with the increase in the Group's sales volume.

Non-current assets increased to \$361.8 million as at 30 Jun 2008 from \$224.2 million as at 31 Dec 2007. Property, plant and equipment increased by \$49.1 million due to the expansion of operations in China and MENA. Financial and lease receivables increased by \$41.8 million which were in line with the progress of construction of water plants in China. In addition, non-trade amount due from related parties increased due to loans granted to associates.

Non-current liabilities increased to \$237.2 million as at 30 Jun 2008 from \$196.3 million as at 31 Dec 2007, resulting mainly from the increase in bank borrowings during the first half of the financial year to support the Group's expansion.

### **The Company**

In January 2008, the Company transferred its manufacturing activities of the membrane systems to a wholly owned subsidiary. In line with this transfer of activities, the Company's balance sheet items related to the manufacturing activities would be transferred out. Going forward, the Company will only carry out investment holding related activities.

Shareholders' equity for the Company decreased to \$151.5 million as at 30 Jun 2008 from \$156.4 million as at 31 Dec 2007. The decrease was mainly due to the dividends payment of \$9.9 million during the quarter ended 30 Jun 2008. This was offset by new shares issued of \$3.1 million and increase in employee share option reserve of \$1.9 million during the half year ended 30 Jun 2008.

## **8(c) Cash flow Statement**

### **Second quarter and first half year**

The Group's cash position as of 30 Jun 2008 was \$93.6 million, up by \$44.5 million compared to 30 Jun 2007.

For the second quarter and half year ended 30 Jun 2008, the Group generated cash of \$16.7 million and \$49.2 million respectively from its operations, mainly due to the increase in operating profit for the financial period and improvement in working capital. Cash used in investing activities for the financial period was largely due to capital expenditure of property, plant and equipment to support the Group's expansion. Cash from financing activities was mainly due to the proceeds from borrowings for funding of the Group's investment.

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

Not applicable.

**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**

Outlook of the environmental and water industries remains encouraging.

First half year 2008 results have been in line with the Group's expectation. Hyflux continues to experience strong growth in the municipal sectors in China and MENA. Desalination and water projects in these two regions are progressing on schedule.

As Hyflux takes appropriate steps in dealing with uncertainty in the world economy, global financial markets and volatile commodity prices, the Group remains optimistic in delivering earnings growth.

In July 2008, the Group announced the establishment of a S\$300 million Multicurrency Debt Issuance Programme with DBS Bank Ltd and Standard Chartered Bank as arrangers and initial dealers. The net proceeds from the issuance of notes will be used to finance the Group's investments or general corporate funding requirements.

**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.

***(c) Date payable***

Not applicable.

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

Not applicable.

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

Not applicable.



### **13. 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 financial results for the quarter ended 30 Jun 2008 to be false or misleading in any material respect.

### **BY ORDER OF THE BOARD**

Lim Poh Fong  
Company Secretary  
6 August 2008