



HYFLUX LTD
Registration number : 200002722Z

**Unaudited Financial Statements For Third Quarter And Nine Months Ended
30 September 2008**

The Directors of Hyflux Ltd wish to announce the unaudited results of the Group for third quarter and nine months ended 30 September 2008.

**1 (a)(i) CONSOLIDATED INCOME STATEMENT for third quarter and nine months ended
30 September 2008**

	<u>The Group</u>					
	<u>Quarter ended 30 Sep</u>			<u>Nine months ended 30 Sep</u>		
	2008	2007	Change	2008	2007	Change
	S\$'000	S\$'000	%	S\$'000	S\$'000	%
		(Restated)			(Restated)	
Revenue	177,417	64,152	177%	375,069	126,861	196%
Raw materials and consumables	(128,758)	(42,267)	205%	(253,339)	(79,591)	218%
Personnel expenses	(13,716)	(7,521)	82%	(35,938)	(18,903)	90%
Cost of share-based payment	(692)	(591)	17%	(2,621)	(2,134)	23%
Depreciation and amortisation	(2,503)	(1,910)	31%	(6,498)	(5,477)	19%
Finance income	865	478	81%	2,270	1,588	43%
Finance expenses	(2,230)	(1,913)	17%	(6,069)	(4,483)	35%
Fair value loss on derivative financial instruments	(171)	(299)	(43%)	(509)	(3,361)	(85%)
Share of loss of associates	(544)	-	NM	(533)	(88)	NM
Other operating expenses	(6,702)	(2,426)	176%	(16,335)	(9,163)	78%
Other income (net)	75	126	(40%)	248	280	(11%)
Gain on sale of partial interest in a joint venture [Note 1(a)(iii)]	-	-	NM	-	8,185	NM
Net gain on sale of property, plant and equipment	109	109	NM	62	233	NM
Negative goodwill on acquisition of business	-	-	NM	-	2,620	NM
Profit before taxation	23,150	7,938	192%	55,807	16,567	237%
Taxation	(4,641)	(345)	NM	(6,712)	(1,543)	NM
Profit after taxation	18,509	7,593	144%	49,095	15,024	227%
Attributable to:						
Shareholders of the Company	17,328	6,678	159%	45,628	13,327	242%
Minority interests	1,181	915	29%	3,467	1,697	104%
	18,509	7,593	144%	49,095	15,024	227%

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: -

	The Group			
	Quarter ended 30 Sep		Nine months ended 30 Sep	
	2008	2007	2008	2007
	S\$'000	S\$'000	S\$'000	S\$'000
(Impairment)/write back of trade and other receivables	(1,669)	778	(1,689)	622
(Provision for)/write back of inventory obsolescence and inventory written down	(1)	(3)	4	(158)
Foreign exchange gain - net	<u>4,069</u>	<u>767</u>	<u>9,655</u>	<u>660</u>

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

	The Group			
	Quarter ended 30 Sep		Nine months ended 30 Sep	
	2008	2007	2008	2007
	S\$'000	S\$'000	S\$'000	S\$'000
Cash received from sale	-	-	-	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)
Gain on sale of partial interest in a joint venture	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,185</u>

1(b)(i) BALANCE SHEETS

	The Group		The Company	
	30 Sep 08 S\$'000	31 Dec 07 S\$'000	30 Sep 08 S\$'000	31 Dec 07 S\$'000
<u>Non-current assets</u>				
Property, plant and equipment	50,166	62,573	8	7,612
Investment property	2,276	2,373	-	-
Intangible assets	72,885	40,499	2,372	4,182
Investments in subsidiaries	-	-	135,934	134,377
Investments in joint venture	-	-	2,375	1,125
Investments in associates	112,875	100,064	12,524	12,277
Long term investments	908	7,917	899	899
Financial and lease receivables	167,647	9,570	-	-
Lease prepayment	9,884	-	-	-
Trade receivables	1,021	-	-	-
Due from related parties (non-trade)	27,993	-	18,381	18,833
Deferred tax assets	1,763	1,218	-	-
Total non-current assets	447,418	224,214	172,493	179,305
<u>Current assets</u>				
Gross amounts due for contract work	77,216	93,257	-	9,527
Inventories	31,151	20,641	-	17,498
Trade receivables	64,332	46,110	608	1,148
Financial and lease receivables	2,655	187	-	-
Other receivables and deposits	35,447	31,740	1,651	3,377
Prepayments	16,518	6,582	1,018	1,327
Due from related parties (trade)	48,124	15,216	21,197	22,673
Due from related parties (non-trade)	7,619	4,787	279,216	155,412
Cash and fixed deposits	93,924	121,047	3,742	6,074
Total current assets	376,986	339,567	307,432	217,036
<u>Current liabilities</u>				
Trade payables	194,759	55,022	254	1,172
Other payables and accruals	16,258	17,747	673	3,216
Progress payments from customers	35,052	25,989	-	2,080
Interest-bearing loans and borrowings	14,707	5,245	14,667	5,000
Finance lease liabilities	105	104	-	-
Deferred income	13,603	14,281	-	88
Due to related parties (trade)	3,758	-	875	845
Due to related parties (non-trade)	2,942	1,796	76,064	36,741
Tax payable	4,790	202	-	-
Total current liabilities	285,974	120,386	92,533	49,142
Net current assets	91,012	219,181	214,899	167,894
<u>Non-current liabilities</u>				
Interest-bearing loans and borrowings	239,436	193,266	237,720	190,596
Finance lease liabilities	103	187	-	-
Deferred tax liabilities	5,176	2,875	159	159
Total non-current liabilities	244,715	196,328	237,879	190,755
Net assets	293,715	247,067	149,513	156,444

	<u>The Group</u>		<u>The Company</u>	
	<u>30 Sep 08</u>	<u>31 Dec 07</u>	<u>30 Sep 08</u>	<u>31 Dec 07</u>
	<u>S\$'000</u>	<u>S\$'000</u>	<u>S\$'000</u>	<u>S\$'000</u>
<u>Equity attributable to shareholders of the Company</u>				
Share capital	99,033	95,820	99,033	95,820
Capital reserves	1,064	1,064	-	-
Foreign currency translation reserve	5,080	(1,815)	-	-
Hedging reserve	(9,961)	(4,222)	-	-
Employee share option reserve	12,040	9,419	12,040	9,419
Revenue reserve	175,225	139,506	38,440	51,205
Shareholders' equity	282,481	239,772	149,513	156,444
Minority interests	11,234	7,295	-	-
Total equity	293,715	247,067	149,513	156,444
<i>Group net borrowings (S\$)</i>	160,427	77,755	n.a.	n.a.
<i>Group net gearing (times)</i>	0.55x	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 Sep 08		31 Dec 07	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
145	14,667	104	5,245

(ii) Amount repayable after one year

30 Sep 08		31 Dec 07	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
1,599	237,940	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 fellow subsidiary.

1(c) CONSOLIDATED CASH FLOW STATEMENT
for third quarter and nine months ended 30 September 2008

	The Group			
	Quarter ended 30 Sep		Nine months ended 30 Sep	
	2008	2007	2008	2007
	S\$'000	S\$'000	S\$'000	S\$'000
		(Restated)		(Restated)
Cash flows from operating activities				
Profit before taxation	23,150	7,938	55,807	16,567
Adjustments:				
Cost of share-based payment	692	591	2,621	2,134
Fair value loss on derivative financial instruments	171	299	509	3,361
Gain on sale of partial interest in a joint venture	-	-	-	(8,185)
Net gain on sale of property, plant and equipment	(109)	(109)	(62)	(233)
Share of loss of associates	544	-	533	88
Depreciation and amortisation	2,503	1,910	6,498	5,477
Finance expenses	2,230	1,913	6,069	4,483
Finance income	(865)	(478)	(2,270)	(1,588)
Negative goodwill on acquisition of business	-	-	-	(2,620)
Impairment /(write back) of trade and other receivables	1,669	(778)	1,689	(622)
Provision for/(write back of) inventory obsolescence and inventory written down	1	3	(4)	158
Operating cash flows before working capital changes	<u>29,986</u>	<u>11,289</u>	<u>71,390</u>	<u>19,020</u>
Working Capital Changes :				
Inventories	(8,464)	(554)	(10,498)	(6,439)
Gross amounts due for contract work	(8,116)	(17,243)	34,041	(33,591)
Trade receivables	52,560	(2,605)	(20,884)	(7,168)
Financial and lease receivables	(58,105)	3,219	(141,899)	(5,220)
Lease prepayment	(1,841)	-	(1,841)	-
Other receivables, deposits and prepayments	458	(1,146)	(16,182)	(43,677)
Due from related parties (trade)	(6,583)	(1,671)	(29,150)	(5,411)
Trade payables	37,438	19,380	139,737	27,744
Other payables and accruals	(43,063)	488	(14,962)	1,036
Progress payments from customers	18,498	(6,282)	9,063	16,934
Deferred income	(537)	(9,776)	(677)	(11,840)
Total working capital changes	<u>(17,755)</u>	<u>(16,190)</u>	<u>(53,252)</u>	<u>(67,632)</u>
Cash generated from / (used in) operating activities	12,231	(4,901)	18,138	(48,612)
Tax paid	(1,396)	(119)	(780)	(1,087)
Net cash generated from / (used in) operating activities	<u>10,835</u>	<u>(5,020)</u>	<u>17,358</u>	<u>(49,699)</u>

	The Group			
	Quarter ended 30 Sep		Nine months ended 30 Sep	
	2008	2007	2008	2007
	S\$'000	S\$'000	S\$'000	S\$'000
		(Restated)		(Restated)
Cash flows from investing activities				
Purchase of property, plant and equipment	(3,152)	(26,918)	(14,475)	(35,407)
Acquisition of intangible assets	(19,775)	(1,996)	(33,609)	(6,312)
Sale of a joint venture, net of cash disposed [Note 1(c)(i)]	-	-	-	16,059
Proceeds from sale of property, plant and equipment	130	97	136	209
Long term investments	-	-	-	(1,083)
Acquisition of associates	(88)	(15,397)	(7,571)	(16,881)
Acquisition of business [(Note 1(c)(ii)]	-	-	-	(6,921)
Due from related parties (non-trade)	(5,788)	303	(29,680)	-
Dividends received from associates	900	357	1,641	357
Interest received	865	478	2,270	1,588
Net cash used in investing activities	(26,908)	(43,076)	(81,288)	(48,391)
Cash flows from financing activities				
Proceeds from issuance of new shares under Employee's Share Option Scheme	101	1,770	3,213	3,177
Proceeds from borrowings	25,855	68,338	73,603	149,676
Repayment of borrowings	(10,475)	-	(23,927)	(31,490)
Repayment of lease liabilities	(36)	(44)	(82)	(171)
Interest paid	(2,282)	(1,913)	(8,683)	(4,483)
Payments of dividends	-	-	(9,909)	(7,016)
Net cash generated from financing activities	13,163	68,151	34,215	109,693
Net (decrease)/ increase in cash and cash equivalents	(2,910)	20,055	(29,715)	11,603
Cash and cash equivalents at beginning of the period	93,631	49,168	121,047	55,827
Effect of exchange rate changes	3,203	(856)	2,592	937
Cash and cash equivalents at end of the period	93,924	68,367	93,924	68,367

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 Sep		Nine months ended 30 Sep	
	2008	2007	2008	2007
	S\$'000	S\$'000	S\$'000	S\$'000
Current assets	-	-	-	4,248
Non-current assets	-	-	-	39,667
Current liabilities	-	-	-	(2,827)
Non-current liabilities	-	-	-	(31,699)
Net assets sold	-	-	-	9,389
Gain on partial disposal	-	-	-	8,185
Professional fees incurred	-	-	-	143
Cash proceeds from sale	-	-	-	17,717
Less: Professional fees incurred	-	-	-	(143)
Less: Cash in joint venture	-	-	-	(1,515)
Cash inflow on partial sale of interest in a joint venture	-	-	-	16,059

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

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

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		
The Group – 2008									
At 1.1.2008	95,820	1,064	(1,815)	(4,222)	9,419	139,506	239,772	7,295	247,067
Net fair value gain on derivative financial instruments	-	-	-	1,676	-	-	1,676	-	1,676
Foreign currency translation differences	-	-	(827)	-	-	-	(827)	(65)	(892)
Net income / (expense) recognised directly in equity	-	-	(827)	1,676	-	-	849	(65)	784
Net profit for the period	-	-	-	-	-	28,300	28,300	2,286	30,586
Total recognised income / (expense) for the period	-	-	(827)	1,676	-	28,300	29,149	2,221	31,370
Issue of shares for cash under Employees' Share Option Scheme	3,112	-	-	-	-	-	3,112	-	3,112
Cost of share-based payment	-	-	-	-	1,929	-	1,929	-	1,929
Dividends	-	-	-	-	-	(9,909)	(9,909)	-	(9,909)
At 30.6.2008	98,932	1,064	(2,642)	(2,546)	11,348	157,897	264,053	9,516	273,569
Net fair value loss on derivative financial instruments	-	-	-	(1,459)	-	-	(1,459)	-	(1,459)
Cash flow hedges									
- Foreign currency exchange losses	-	-	-	(6,570)	-	-	(6,570)	-	(6,570)
- Transfer to income statement	-	-	-	614	-	-	614	-	614
Foreign currency translation differences	-	-	7,722	-	-	-	7,722	537	8,259
Net income / (expense) recognised directly in equity	-	-	7,722	(7,415)	-	-	307	537	844
Net profit for the period	-	-	-	-	-	17,328	17,328	1,181	18,509
Total recognised income / (expense) for the period	-	-	7,722	(7,415)	-	17,328	17,635	1,718	19,353
Issue of shares for cash under Employees' Share Option Scheme	101	-	-	-	-	-	101	-	101
Cost of share-based payment	-	-	-	-	692	-	692	-	692
At 30.9.2008	99,033	1,064	5,080	(9,961)	12,040	175,225	282,481	11,234	293,715

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
The Group – 2007 (Restated)									
At 1.1.2007	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)
As restated	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	-	-	-	2,975	-	-	2,975	-	2,975
Foreign currency translation differences	-	-	2,528	-	-	-	2,528	469	2,997
Net income recognised directly in equity	-	-	2,528	2,975	-	-	5,503	469	5,972
Net profit for the period	-	-	-	-	-	6,649	6,649	782	7,431
Total recognised income for the period	-	-	2,528	2,975	-	6,649	12,152	1,251	13,403
Issue of shares for cash under Employees' Share Option Scheme	1,407	-	-	-	-	-	1,407	-	1,407
Cost of share-based payment	-	-	-	-	1,543	-	1,543	-	1,543
Dividends	-	-	-	-	-	(7,016)	(7,016)	-	(7,016)
At 30.6.2007	92,549	987	(2,022)	(4,864)	7,831	113,206	207,687	19,716	227,403
Recognised in income statement on maturity of financial instruments	-	-	-	194	-	-	194	-	194
Foreign currency translation differences	-	-	(1,249)	-	-	-	(1,249)	182	(1,067)
Net income / (expense) recognised directly in equity	-	-	(1,249)	194	-	-	(1,055)	182	(873)
Net profit for the period	-	-	-	-	-	6,678	6,678	915	7,593
Total recognised income / (expense) for the period	-	-	(1,249)	194	-	6,678	5,623	1,097	6,720
Issue of shares for cash under Employees' Share Option Scheme	1,770	-	-	-	-	-	1,770	-	1,770
Cost of share-based payment	-	-	-	-	591	-	591	-	591
At 30.9.2007	94,319	987	(3,271)	(4,670)	8,422	119,884	215,671	20,813	236,484

The Company

At 1.1.2008

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

95,820 - 9,419 51,205 156,444

Net loss for the period

-	-	-	(51)	(51)
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Total recognised expense for the period

- - - (51) (51)

Issue of shares for cash under Employees' Share Option Scheme

3,112 - - - 3,112

Cost of share-based payment

- - 1,929 - 1,929

Dividends

- - - (9,909) (9,909)

At 30.6.2008

98,932 - 11,348 41,245 151,525

Net loss for the period

-	-	-	(2,805)	(2,805)
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Total recognised expense for the period

- - - (2,805) (2,805)

Issue of shares for cash under Employees' Share Option Scheme

101 - - - 101

Cost of share-based payment

- - 692 - 692

At 30.9.2008

99,033 - 12,040 38,440 149,513

At 1.1.2007

91,142 563 6,288 46,313 144,306

Recognised in income statement on maturity of financial instruments

-	(563)	-	-	(563)
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Net expense recognised directly in equity

- (563) - - (563)

Net profit for the period

- - - 5,223 5,223

Total recognised income / (expense) for the period

- (563) - 5,223 4,660

Issue of shares for cash under Employees' Share Option Scheme

1,407 - - - 1,407

Cost of share-based payment

- - 1,543 - 1,543

Dividends

- - - (7,016) (7,016)

At 30.6.2007

92,549 - 7,831 44,520 144,900

Net profit for the period

-	-	-	7,696	7,696
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Total recognised income for the period

- - - 7,696 7,696

Issue of shares for cash under Employees' Share Option Scheme

1,770 - - - 1,770

Cost of share-based payment

- - 591 - 591

At 30.9.2007

94,319 - 8,422 52,216 154,957

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 third quarter ended 30 Sep 2008, 19,000 new ordinary shares were issued pursuant to options exercised under the Hyflux Employee Shares Option Scheme ("Scheme") (third quarter ended 30 Sep 2007: 963,000). For the nine months ended 30 Sep 2008, 1,811,000 shares were issued pursuant to the Scheme (nine months ended 30 Sep 2007: 3,475,500).
- During this quarter, no share options were granted under the Scheme (third quarter ended 30 Sep 2007: 3,430,000). For the nine months ended 30 Sep 2008, 3,610,000 share options were granted under the Scheme (nine months ended 30 Sep 2007: 5,580,000).
- As at 30 Sep 2008, the number of outstanding and unexercised options granted under the Scheme was 22,555,343 (30 Sep 2007: 23,547,468).
- As at 30 Sep 2008, the Group is not holding any treasury shares (30 Sep 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 Sep</u>		<u>Nine months ended 30 Sep</u>	
	2008 Cents	2007 Cents (Restated)	2008 Cents	2007 Cents (Restated)
Based on the weighted average of 524,579,249 (30 Sep 2007: 520,631,193) ordinary shares in issue; and	3.30	1.28	8.70	2.56
On a fully diluted basis of 542,711,589 (30 Sep 2007: 526,609,928) ordinary shares	<u>3.22</u>	<u>1.27</u>	<u>8.41</u>	<u>2.53</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.

	30 Sep 08 Cents	31 Dec 07 Cents
Net assets value per ordinary share of:		
<i>Based on 525,191,360 (31 Dec 2007: 523,380,360) ordinary shares in issue</i>		
Group	53.8	45.7
Company	<u>28.5</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

Third quarter review

The Group achieved revenue of \$177.4 million. This is the highest per quarter revenue recorded in the Group's history. The Profit after tax and minority interests of \$17.3 million is more than two times higher as compared to the previous corresponding quarter.

Revenue

The Group's revenue of \$177.4 million increased by more than two times, as compared to the previous corresponding quarter. This is due to strong performance in the municipal sector, which accounted for 87% of the revenue. This is an increase of more than six times as compared to the previous corresponding quarter. Sales in China accounted for 67% of total revenue, while MENA contributed approximately 31% of total revenue for the quarter ended 30 Sep 2008.

Industrial sales of membrane systems to sectors such as petrochemical and pharmaceutical decreased from \$39.2 million to \$22.4 million compared to the previous corresponding quarter. This is attributable to timing differences on the completion of projects and slow down in the industrial sector.

Costs and expenses

Raw materials and consumables costs increased from \$42.3 million for the quarter ended 30 Sep 2007 to \$128.8 million for the quarter ended 30 Sep 2008. This is in line with the increase in sales volume and cost of construction materials.

Personnel expenses increased from \$7.5 million for the quarter ended 30 Sep 2007 to \$13.7 million for the quarter ended 30 Sep 2008 in line with the increase in headcount to support growth.

Finance expenses increased from \$1.9 million for the quarter ended 30 Sep 2007 to \$2.2 million for the quarter ended 30 Sep 2008, due to the higher interest expenses on increased bank borrowings as compared to the previous corresponding quarter.

Other operating expenses increased from \$2.4 million for the quarter ended 30 Sep 2007 to \$6.7 million for the quarter ended 30 Sep 2008 in line with the increase in sales volume.

The tax charge for the quarter ended 30 September 2008 was higher than the effective tax rate of the previous corresponding quarter due to the full utilisation of carried forward tax losses for certain subsidiaries in prior quarter.

Nine months review

The Group recorded a sales turnover of \$375.1 million. This is the highest revenue recorded for a nine months period. Profit after tax and minority interests is \$45.6 million for the nine months of the financial year.

Revenue

For the nine months ended 30 Sep 2008, the Group's revenue increased by more than two times to \$375.1 million as compared to \$126.9 million for the corresponding period in 2007.

Municipal sales increased more than seven times from \$43.3 million to \$311.3 million and contributed 83% to the Group's revenue. Sales in China accounted for 58% of total revenue, while MENA contributed approximately 38% of total revenue for the nine months ended 30 Sep 2008.

Costs and expenses

Raw materials and consumables costs increased from \$79.6 million for the nine months ended 30 Sep 2007 to \$253.3 million for the nine months ended 30 Sep 2008. This is in line with the increase in sales volume and cost of construction materials.

Personnel expenses increased from \$18.9 million for the nine months ended 30 Sep 2007 to \$35.9 million for the nine months ended 30 Sep 2008 in line with the increase in headcount to support growth.

Finance expenses increased from \$4.5 million for the nine months ended 30 Sep 2007 to \$6.1 million for the nine months ended 30 Sep 2008, due to the higher interest expenses on increased bank borrowings as compared to the corresponding period in 2007.

Fair value loss on financial instrument derivative was \$0.5 million as compared to \$3.4 million for the nine months ended 30 Sep 2007. There was a hedging reserve related to SingSpring plant reflected in the income statement in 2007.

Earnings Per Share

Third quarter

Basic and fully diluted earnings per share for third quarter increase more than two times to 3.30 cents and 3.22 cents respectively compared to the corresponding quarter in 2007.

Nine months

Basic and fully diluted earnings per share for nine months ended 30 Sep 2008 increased more than three times to 8.70 cents and 8.41 cents respectively compared to the corresponding period in 2007.

8(b) Balance Sheets Analysis

The Group

The Group's shareholders' equity increased to \$282.5 million as at 30 Sep 2008 from \$239.8 million as at 31 Dec 2007. The increase was mainly attributable to the net profit for the nine months of the financial year.

Current assets increased to \$377.0 million as at 30 Sep 2008 from \$339.6 million as at 31 Dec 2007, mainly due to increases in trade related receivables which was in line with the increase in the Group's sales volume.

Non-current assets increased to \$447.4 million as at 30 Sep 2008 from \$224.2 million as at 31 Dec 2007. Intangible assets and financial and lease receivables increased by \$32.4 million and \$158.1 million respectively 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.

Current liabilities increased to \$286.0 million as at 30 Sep 2008 from \$120.4 million as at 31 Dec 2007, mainly due to increases in trade related payables which was in line with the increase in the Group's sales volume and the increase in the current portion of the interest-bearing loans and borrowings.

Non-current liabilities increased to \$244.7 million as at 30 Sep 2008 from \$196.3 million as at 31 Dec 2007, resulting mainly from the increase in bank borrowings during the nine months 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 \$149.5 million as at 30 Sep 2008 from \$156.4 million as at 31 Dec 2007. The decrease was mainly due to the dividends payment of \$9.9 million in the second quarter ended 30 Jun 2008 and net loss of \$2.8 million for the third quarter ended 30 Sep 2008. These were offset by new shares issued of \$3.2 million and increase in employee share option reserve of \$2.6 million during the nine months ended 30 Sep 2008.

8(c) Cash flow Statement

Third quarter and nine months

The Group's cash position as of 30 Sep 2008 was \$93.9 million, up by \$25.6 million as compared to 30 Sep 2007.

For the third quarter and nine months ended 30 Sep 2008, the Group generated cash of \$10.8 million and \$17.4 million respectively from its operations, mainly due to the increase in operating profit for the financial period. Cash used in investing activities for the financial period was largely due to capital expenditure 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

The reduction in commodity prices is positive to our engineering, procurement and construction businesses. Our dominant exposure to the municipal governments is also positive as we expect stability in payment. In Algeria we continue to see positive operational cash flows. The Group expects to leverage on ongoing investment opportunities in China's water sector.

In view of the uncertainties arising from the global economic slowdown and significant deterioration in financial market conditions, we continue to adopt a practical and prudent approach to managing the Group's business. With the current credit conditions, we may see higher borrowing costs in the short term.

Specifically, industrial sales of membrane systems to sectors such as petrochemical and pharmaceutical, currently representing 17% of the Group's revenue for the nine months ended 30 Sep 2008, will likely be impacted by the economic slowdown in China.

Hyflux's municipal projects in China and Algeria are progressing on schedule. The Group is steadfast in the pursuit of project execution and process excellence. We will continue to focus on execution of our business plan and to build on our order book.

On 31 October 2008, the Group announced that it has entered into four sale and purchase agreements for the sale of shares in its wholly owned special purpose vehicles ("SPV") with Hyflux Water Trust Management Pte Ltd (acting as Trustee-Manager of Hyflux Water Trust). The total consideration for the sale of these 4 SPVs is \$88 million. The sale and purchase transaction for 3 projects is expected to be completed in December 2008 and 1 project before December 2009. Hyflux's subsidiaries will continue to provide operation & maintenance and management services to the SPVs.

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 Sep 2008 to be false or misleading in any material respect.

BY ORDER OF THE BOARD

Lim Poh Fong
Company Secretary
4 November 2008