



NEWS RELEASE

HYFLUX POSTS FY2006 EARNINGS OF S\$16.9 MILLION ON REVENUE OF S\$129.8 MILLION

Key Highlights:

- **Short Term impact on Group's financial performance due to lower Municipal Sales, "elimination" of EPC revenue and profits (from July 06) relating to Consolidation of all projects at SinoSpring at Group level, and lower one-time gains**
- **Successful divestment of 20% of SingSpring to CitySpring Infrastructure Trust reaps S\$20.4 million cash, S\$8.0 million capital gain**
- **Possible injection of SinoSpring projects to a trust structure**
- **Industrial Sales rose 59% to S\$90.1 million**
- **Healthy Order Book - increased by 37% to S\$435 million (excluding projects under SinoSpring)**

"Hyflux's fundamentals remain strong, notwithstanding the short-term impact on our financials with our increased equity stake in SinoSpring to 80%. Going forward, we are excited with the possible injection of our 13 projects under SinoSpring to a trust structure, thereby allowing us to realise each of these projects' potential in China. Indeed, we are delighted to have realised a major milestone in our asset-light strategy with the recent divestment of our 20% stake in SingSpring to CitySpring Infrastructure Trust and will look into an efficient re-deployment of our capital gain.

"We have made significant progress in the MENA region and would be executing a 200 MLD seawater desalination plant with an estimated EPC value of about S\$328 million in Algeria, the largest such plant we have undertaken. We are also progressing well in

our used oil recovery business in Singapore, China and the region as well as our consumer segment.

“Our order book remains healthy, with good growth expected for all sectors,” said Ms Olivia Lum, Hyflux’s Group CEO and President.

Singapore, February 28, 2007 – Main Board-listed Hyflux Ltd (“Hyflux” or “the Group”), a leading regional player in integrated environmental solutions specialising in membrane technologies, today reported earnings of S\$16.9 million on the back of a revenue of S\$129.8 million for the full year ended December 31, 2006 (“FY2006”).

The Group’s performance has been affected by lower municipal sales from Middle East, Singapore and China, partially offset by robust Industrial Sales mainly from China. The accounting treatment under the Singapore Financial Reporting Standards whereby EPC revenue and profits (from July 06) relating to projects under SinoSpring Utility Ltd (“SinoSpring”) would be eliminated on consolidation at Group level as SinoSpring has become an 80% Hyflux subsidiary, also contributed to the 56% year-on-year decrease in municipal sales.

Higher personnel costs and development expenses and finance costs necessary to develop and expand existing markets and used oil recycling business as well as lower exceptional gains added to the decline in net profits attributable to shareholders at the end of December 2006. The previous corresponding period’s profits were boosted by one time and exceptional gains totalling approximately S\$24.9 million.

Financial Review

Robust Industrial sales was experienced, and grew by 59% to S\$90.1 million in FY2006 on the back of strong order book from both the pharmaceutical and biotechnology sectors. This segment comprised 70% of total Group revenue. Municipal revenue, which makes up 25% of FY2006 sales, was S\$32.7 million, 56% lower than last year. The remaining 5% of revenue was contributed by the Group’s Consumer segment, which experienced a rebound during the year with S\$7.0 million sales.

China continued to be the key revenue driver, accounting for 71% of total revenue in FY2006 as compared to 57% in the previous corresponding period. Sales from this country was up 26% to S\$92.2 million in FY2006, driven mainly by a strong demand from the industrial sector, partially offset by the elimination of EPC revenue relating to projects under SinoSpring Utility.

Singapore accounted for 21% of total group revenue in FY2006, and comprised mainly of water revenue from operating the SingSpring seawater desalination plant. Contributions from Singapore decreased by 20% to S\$27.0 million due to revenue recognised from the completion of SingSpring plant last year. "With the successful divestment of our 20% equity interest in SingSpring to Cityspring, we will now have a 30% equity interest in the SingSpring Trust and will continue to generate long-term recurring income stream as our wholly-owned subsidiary, Hyflux Engineering, continues to be the operator of the plant till year 2025," added Ms Lum.

Revenue from the Middle East and the other region, which made up 8% of turnover, was down by 56% to S\$10.6 million in FY2006 due to lower sales from the Middle East venture.

Personnel expenses of S\$19.7 million was S\$3.0 million or 18% higher than that of the corresponding period in 2005 as the Group continued to build on its human capital to support its direction of enhancing its recurring income stream, and expand into markets such as India, Europe and the Middle East and North Africa ("MENA") region, as well as develop its new pillar of growth in oil recycling.

Other non-operating expenses comprised mainly of allowance for doubtful debts and obsolete stocks and exchange losses (realised and unrealised) amounting to a total of S\$4.8 million in FY2006. Net Financial expenses had increased substantially by S\$3.7 million due to the project financing loan for the SingSpring seawater desalination plant as well as term loans.

In accordance with FRS 103, a negative goodwill of S\$3.8 million was recorded, representing the excess of the fair values over the purchase price of subsidiaries acquired during the year.

Higher tax expense of S\$4.8 million this year was mainly due to the provision of deferred tax expenses resulting from timing differences between accounting and tax profits. In addition, certain subsidiaries in China were subjected to corporate income tax in the current year.

The Group's cash position stood at S\$55.8 million as at December 31, 2006.

Prospects

Going forward, Hyflux remains optimistic about the macro environment on the water and wastewater and used oil recovery sectors in China, India, South East Asia and the Middle East region.

“We are a technology company and our wide range of membrane applications will enable us to provide customised and competitive solutions to customers from various sectors. In particular, it's noteworthy that we are progressing well in our new pillar of growth, that is, used oil recovery business.

“We have also made fresh footprint in the MENA region with our recent, significant win of a US\$205 million EPC contract to design and build a 200MLD desalination plant in Algeria. We will not rest on our laurels and will continue to pursue other projects in Algeria and the MENA region.

“We are delighted that our consumer segment is beginning to take off and are confident that our recent tie-up with Marmon Water will enable us to leverage on our proven technologies to capitalise on opportunities not just in Asia but also in North America, a market we have not previously addressed,” concluded Ms Lum.

Hyflux announced two JV agreements and several licences with Marmon Water LLC (“Marmon Water”), one of the world’s largest manufacturers of residential and commercial water treatment systems. A 50-50 joint venture company between Hyflux and Marmon Water will be set up in Singapore to invest up to S\$50 million over the next five years to develop innovative and affordable products and technologies for both residential and commercial applications for sale in emerging as well as mature markets.

Order Book

As of FY2006, the Group’s order book (excluding the projects in SinoSpring), stood at S\$435 million, representing a 37% increase compared to FY2005.

Funding

The Group recently strengthened its capital structure with the successful signing of a 5-year US\$138 million syndicated loan facility with banks from China, Malaysia, Taiwan, Europe, India and all major Singapore banks. This will allow the Group to execute its strong pipeline of projects and fund new opportunities.

The Group has successfully achieved a major milestone in its asset-light strategy following the completion of its divestment of 20% equity interest in SingSpring to SingSpring Trust. Moving forward, the possible injection of SinoSpring projects to a trust structure will enable the Group to fuel the growth of its strong pipeline of BOO/BOT projects when these project values are unlocked and capital re-deployed for the Group’s business activities.

Barring unforeseen circumstances, the Group remains positive in its outlook for FY2007.

About Hyflux Ltd

Founded in 1989, Hyflux Ltd has rapidly grown to become one of Asia's leading environmental companies specialising in membrane technologies, with operations in Singapore & Southeast Asia, China, the Middle East & North Africa and India.

Listed on the Singapore Stock Exchange, Hyflux is today an integrated solutions provider offering services that include process design and optimisation, pilot testing, fabrication, and installation, engineering procurement & construction. It is also engaged in the commissioning, operation & maintenance of a wide range of water treatment & liquid separation plants on a turnkey or Design-Build-Own-Operate ("DBOO") arrangement.

Its four key areas of focus are:

- **Water** – Seawater desalination, raw water purification, wastewater cleaning, water recycling, seawater water reclamation and ultra pure water production for municipal and industrial clients as well as home consumer filtration and purification products
- **Industrial Processes** – Separation, concentration and purification for manufacturing process streams
- **Energy** - Development of membrane applications in resource recovery, waste recycling and energy reclamation such as used oil recovery and recycling.
- **Specialty Materials** - – Development and commercialization of specialty materials utilizing membrane technology, such as lactic acid from natural renewable resources like corn and sugar cane.

In 2006, Hyflux was awarded Water Company of the Year by the UK's Global Water Intelligence at the Global Water Awards. It was also named a Forbes Asia's Best Under a Billion Company in 2006 and 2005.

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