

**Full Year Financial Statement – 2006****UNAUDITED RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006****1. GROUP PROFIT AND LOSS ACCOUNT for the financial year ended 31 December 2006**

	31 Dec 06 S\$'000	31 Dec 05 S\$'000 (Restated)	+ / (-) %
<b>Revenue</b>	<b>129,837</b>	131,504	(1%)
Raw materials and consumables	<b>(64,332)</b>	(69,434)	(7%)
Personnel expenses	<b>(19,653)</b>	(16,676)	18%
Other operating expenses	<b>(12,411)</b>	(14,458)	(14%)
Depreciation and amortisation	<b>(4,954)</b>	(4,001)	24%
Other non-operating (expenses)/ income	<b>(4,797)</b>	793	NM
Cost of share-based payment	<b>(3,150)</b>	(2,325)	35%
Gain on sale of subsidiaries and an associate [Note 1(b)]	<b>1,655</b>	3,768	(56%)
Gain on sale of property, plant and equipment	<b>52</b>	8,198	(99%)
Negative goodwill on acquisitions	<b>3,839</b>	-	NM
Financial income	<b>5,534</b>	2,700	105%
Financial expenses	<b>(9,078)</b>	(2,547)	NM
Fair value gain on financial instruments (unrealised)	<b>115</b>	12,945	(99%)
Share of results of associates	<b>(910)</b>	(93)	NM
<b>Profit before taxation</b>	<b>21,747</b>	50,374	(57%)
Tax expense	<b>(4,821)</b>	(1,071)	NM
<b>Profit after taxation</b>	<b>16,926</b>	49,303	(66%)
<b>Attributable to:</b>			
Shareholders of the Company	<b>16,954</b>	46,393	(63%)
Minority interests	<b>(28)</b>	2,910	NM
	<b>16,926</b>	49,303	(66%)

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: -

	31 Dec 06 S\$'000	31 Dec 05 S\$'000	+ / (-) %
Allowance for doubtful debts	(1,433)	(890)	61%
Allowance for inventory obsolescence	(1,252)	(72)	NM
Tax expense :			
- Current income taxation	(1,680)	(1,289)	30%
- (Under)/ overprovision in respect of prior years	(3,141)	218	NM
	(4,821)	(1,071)	NM
Foreign exchange loss (unrealised)	(1,393)	(263)	NM
Foreign exchange (loss) / gain (realised)	(1,420)	401	NM

### 1(b) Gain on sale of subsidiaries and an associate is arrived as follows: -

	31 Dec 06 S\$'000	31 Dec 05 S\$'000
Sale proceeds	12,201	30,000
Less:		
Investment disposed	(10,000)	(19,941)
Post-acquisition profits of investment disposed	(33)	-
	2,168	10,059
Exchange difference	(409)	-
Share of fair value gain in financial instruments	-	(4,650)
Legal and other professional fees	(104)	(1,641)
Gain on sale of subsidiaries and an associate	1,655	3,768

**1(c) Earnings per share :-**

	<b>31 Dec 06</b>	<b>31 Dec 05 (Restated)</b>	<b>+ / (-) %</b>
<b>Earnings per ordinary share of the Group based on profit after taxation attributable to shareholders of the company :-</b>			
(i) Based on the weighted average number of shares (Cents)	<b>3.28</b>	9.24	(65%)
- Weighted average number of shares ('000)	<b>516,490</b>	502,355	-
(ii) On a fully diluted basis (Cents)	<b>3.25</b>	9.01	(64%)
- Adjusted weighted average number of shares ('000)	<b>521,559</b>	515,027	-

## 2. BALANCE SHEETS as at 31 December 2006

	Group		Company	
	31 Dec 06 S\$'000	31 Dec 05 S\$'000 (Restated)	31 Dec 06 S\$'000	31 Dec 05 S\$'000
<b><u>NON-CURRENT ASSETS</u></b>				
Property, plant and equipment	48,908	16,678	4,347	1,264
Intangible assets	38,982	21,049	3,408	1,921
Lease receivables	141,336	100,028	-	-
Investments in subsidiaries	-	-	104,654	56,618
Investments in joint ventures	-	-	20,000	22,538
Investments in associates	6,963	11,494	-	8,812
Long term investments	5,997	5,188	899	-
Long term receivables	3,979	-	14,515	-
Deferred tax assets	505	-	-	-
<b>Total non-current assets</b>	<b>246,670</b>	<b>154,437</b>	<b>147,823</b>	<b>91,153</b>
<b><u>CURRENT ASSETS</u></b>				
Cash and fixed deposits	55,827	96,412	4,694	52,777
Short term investments	-	2,000	-	2,000
Trade receivables	30,734	31,072	1,165	227
Lease receivables, current	757	630	-	-
Gross amounts due for contract work	50,723	43,859	14,031	12,095
Other receivables, deposits and prepayments	25,526	17,621	3,427	1,084
Inventories	11,193	11,069	8,506	5,073
Due from related parties	15,901	27,687	37,092	26,657
Short term loans	98	9,732	-	870
Derivative financial instruments	3,758	6,568	228	1
<b>Total current assets</b>	<b>194,517</b>	<b>246,650</b>	<b>69,143</b>	<b>100,784</b>
<b><u>CURRENT LIABILITIES</u></b>				
Trade payables	35,277	51,681	1,012	1,876
Advances from customers	3,358	8,400	2,062	6,437
Other payables and accruals	11,377	15,972	2,007	4,042
Tax payable	973	2,698	-	-
Derivative financial instruments	4,995	5,465	-	73
Deferred income	12,197	12,219	-	-
Interest bearing loans and borrowings	33,663	1,641	30,902	385
Finance obligations	576	-	-	-
<b>Total current liabilities</b>	<b>102,416</b>	<b>98,076</b>	<b>35,983</b>	<b>12,813</b>
<b>Net current assets</b>	<b>92,101</b>	<b>148,574</b>	<b>33,160</b>	<b>87,971</b>
<b><u>NON-CURRENT LIABILITIES</u></b>				
Deferred tax liabilities	4,136	288	159	-
Interest bearing loans and borrowings	115,001	105,437	36,518	30,902
<b>Total non-current liabilities</b>	<b>119,137</b>	<b>105,725</b>	<b>36,677</b>	<b>30,902</b>
<b>Net assets</b>	<b>219,634</b>	<b>197,286</b>	<b>144,306</b>	<b>148,222</b>

	<b>Group</b>		<b>Company</b>	
	<b>31 Dec 06</b> <b>S\$'000</b>	<b>31 Dec 05</b> <b>S\$'000</b> <b>(Restated)</b>	<b>31 Dec 06</b> <b>S\$'000</b>	<b>31 Dec 05</b> <b>S\$'000</b>
<b><u>EQUITY ATTRIBUTABLE TO</u></b>				
<b><u>SHAREHOLDERS OF THE COMPANY</u></b>				
Issued share capital	<b>91,142</b>	25,728	<b>91,142</b>	25,728
Share premium	-	62,693	-	62,693
Capital reserve	<b>987</b>	987	-	-
Foreign currency translation reserve	<b>(4,550)</b>	(617)	-	-
Hedging reserve	<b>(7,839)</b>	(7,143)	<b>563</b>	379
Employee share option reserve	<b>6,288</b>	2,852	<b>6,288</b>	2,852
Revenue reserve	<b>115,054</b>	105,063	<b>46,313</b>	56,570
	<b>201,082</b>	189,563	<b>144,306</b>	148,222
Minority interests	<b>18,552</b>	7,723	-	-
<b>Total equity and minority interests</b>	<b>219,634</b>	197,286	<b>144,306</b>	148,222
<i>Group net borrowings (S\$)</i>	<b>93,413</b>	10,666	<b>n.a.</b>	n.a.
<i>Group net gearing (times)</i>	<b>0.43x</b>	0.05x	<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 Dec 06		31 Dec 05	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
2,543	31,696	1,256	385

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

31 Dec 06		31 Dec 05	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
78,483	36,518	74,535	30,902

#### Details of collateral

The secured loans of the Group relates primarily to project financing loan which is secured by a charge on all present and future assets and intellectual property of a joint venture and a charge on the land where the desalination plant of the joint venture is located. In addition, the Company has also pledged all its shares in a joint venture to the principal bankers as security.

Certain subsidiaries in the Group have provided corporate guarantees to the financial institutions for the unsecured term loans of the Company.

### 2(b) Net assets value

	31 Dec 06 Cents	31 Dec 05 Cents Restated	+ / (-) %
<b>Net assets value per ordinary share of:</b>			
Group	38.8	38.3	1%
Company	27.8	28.8	(3%)

### 2(c) Events after balance sheet

Subsequent to the balance sheet date, the Company completed its Restructuring Exercise to vest all the net assets of its 50% joint venture, SingSpring Pte Ltd ("SingSpring"), to a trust ("SingSpring Trust").

Pursuant to the completion of the Restructuring Exercise on 12 February 2007, the Company divested its 20% interest in the seawater desalination plant owned by SingSpring ("Disposal Group") and is now holding a 30% interest in the plant via SingSpring Trust. The Group received S\$20.4 million in cash with a capital gain of approximately S\$8.0 million for its divestment in SingSpring plant.

In accordance with FRS 105 – Non-current Assets Held for Sale and Discontinued Operations (“FRS 105”), the Company has identified and disclosed the assets and liabilities of the Disposal Group as follows:

<b>SINGSPRING PTE LTD YEAR ENDED 31 DEC 2006</b>	<b>Non-current assets held for sale</b>	<b>Liabilities directly associated with non- current assets held for sale</b>
(Included in Consolidated Balance Sheet)	(Disposal Group)	(Disposal Group)
	<b>S\$'000</b>	<b>S\$'000</b>
Current assets	4,496	-
Non-current assets	39,702	-
Current liabilities	-	(3,321)
Non-current liabilities	-	(30,834)
	<u>44,198</u>	<u>(34,155)</u>

The assets and liabilities of the Disposal Group, amounting to approximately S\$44.2 million and S\$34.2 million respectively, equivalent to the Group's 20% interest in SingSpring as at 31 December 2006.

**3. CONSOLIDATED CASHFLOW STATEMENTS  
for the financial year ended 31 December 2006**

	31 Dec 06 S\$'000	31 Dec 05 S\$'000 (Restated)	+ / (-) %
<b>OPERATING ACTIVITIES</b>			
Profit before taxation	21,747	50,374	
Adjustments:			
Fair value gain of financial instruments (unrealised)	(115)	(12,945)	
Gain on sale of a subsidiary and an associate	(1,655)	(3,768)	
Gain on sale of property, plant and equipment	(52)	(8,198)	
Cost of share-based payment	3,150	2,325	
Share of results of associates	910	93	
Depreciation and amortisation	4,954	4,001	
Negative goodwill on acquisitions	(3,839)	-	
Interest expense	9,078	2,547	
Interest income	(5,534)	(2,700)	
Government grants	(384)	(939)	
Allowance for doubtful debts	1,433	890	
Allowance for inventory obsolescence	1,252	72	
Operating cash flows before working capital changes	<u>30,945</u>	<u>31,752</u>	(3%)
Working capital changes :			
Inventories	(1,118)	(5,994)	
Gross amounts due for contract work	(12,368)	(9,445)	
Trade receivables	(620)	3,914	
Other receivables, deposits and prepayments	4,989	(4,393)	
Due from related parties	11,753	(27,687)	
Trade payables	(25,443)	17,088	
Other payables and accruals	(1,706)	12,017	
Advance from customers	(5,042)	7,160	
Lease receivable	(13,782)	-	
Deferred income	(526)	1,609	
Derivative financial instruments	166	-	
Total working capital changes	<u>(43,697)</u>	<u>(5,731)</u>	NM
Cash (used in)/generated from operations	(12,752)	26,021	
Tax (paid)/refunded	(1,208)	110	
<b>Net cashflows (used in)/ generated from operating activities</b>	<u>(13,960)</u>	<u>26,131</u>	NM



	31 Dec 06 S\$'000	31 Dec 05 S\$'000	+ / (-) %
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	(32,048)	(82,318)	
Proceeds from sale of property, plant and equipment	129	19,162	
Acquisition of subsidiaries, net of cash acquired [Note 3(b) ]	(10,871)	-	
Sale of subsidiaries and an associate, net of cash disposed [Note 3(a)]	(4,521)	25,439	
Investments in associates	(4,309)	(11,585)	
Payments for intangible assets	(11,667)	(7,470)	
Payment for long term investments	-	(1,658)	
Payment for short term investments	2,000	13	
Interest received	1,649	1,653	
Government grants received	384	939	
Net cash flows used in investing activities	<u>(59,254)</u>	<u>(55,825)</u>	6%
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of new shares under Employee Share Options Scheme	3,007	38,724	
Proceeds from / (payments of) short-term loans	3,238	(6,982)	
Proceeds from long-term loans	36,039	36,403	
Interest paid	(9,078)	(2,547)	
Interest received from derivatives	3,886	1,047	
Dividend paid to shareholders	(6,963)	(4,318)	
Minority shareholders' contribution	7,079	2,241	
Repayment of finance lease obligations	(10)	-	
Net cash flows from financing activities	<u>37,198</u>	<u>64,568</u>	(42%)
<b>Net (decrease)/ increase in cash and cash equivalents</b>	<b>(36,016)</b>	<b>34,874</b>	
<b>Cash and cash equivalents at beginning of the year</b>	<b>96,412</b>	<b>61,281</b>	
Effect of exchange rate changes	<u>(4,569)</u>	<u>257</u>	
<b>Cash and cash equivalents at end of the year</b>	<b><u>55,827</u></b>	<b><u>96,412</u></b>	(42%)

## NOTES TO CONSOLIDATED CASHFLOW STATEMENTS

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

	31 Dec 06	31 Dec 05
	S\$'000	S\$'000
Current assets	23,505	8,666
Non-current assets	7,218	90,600
Current liabilities	(17,128)	(13,148)
Non-current liabilities	(5)	(90,254)
Derivative asset	-	8,727
Assignment of shareholders' loan	-	20,000
Minority Interest	(3,044)	-
<b>Net assets disposed</b>	<b>10,546</b>	<b>24,591</b>
Gain on sale of subsidiary	1,655	3,768
Professional fees incurred	104	1,641
Add: Cash proceeds from sale of subsidiaries	2,686	30,000
Add: Cash proceeds from sale of associate	9,619	-
<b>Total cash proceeds</b>	<b>12,305</b>	<b>30,000</b>
Less: Cash in subsidiaries	(16,722)	(2,920)
Less: Professional fees incurred	(104)	(1,641)
<b>Cash (outflow) inflow on disposal of subsidiaries and an associate</b>	<b>(4,521)</b>	<b>25,439</b>

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

	31 Dec 06	31 Dec 05
	S\$'000	S\$'000
Cash	3,332	-
Current assets	14,073	-
Non-current assets	37,730	-
Current liabilities	(26,057)	-
Non-current liabilities	(6,834)	-
Minority interest	(7,114)	-
<b>Fair value of net assets acquired</b>	<b>15,130</b>	<b>-</b>
Positive goodwill	3,969	-
Negative goodwill	(3,839)	-
<b>Purchase consideration</b>	<b>15,260</b>	<b>-</b>
Less: Deposits	(1,057)	-
Less: Cash of subsidiaries acquired	(3,332)	-
<b>Net cash outflow on acquisitions</b>	<b>10,871</b>	<b>-</b>

**4. STATEMENTS OF CHANGES IN EQUITY**  
for the financial year ended 31 December 2006

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

	Attributable to shareholders of the Company							Minority interests S\$'000	Total equity S\$'000	
	Share capital S\$'000	Share premium S\$'000	Capital reserve S\$'000	Foreign currency translation reserve S\$'000	Hedging reserve S\$'000	Employee share option reserve S\$'000	Revenue reserve S\$'000			Total S\$'000
	<b>Group</b>									
<b>At 1.1.2006, as previously reported</b>	<b>25,728</b>	<b>62,693</b>	<b>987</b>	<b>(617)</b>	<b>(7,143)</b>	<b>2,852</b>	<b>104,946</b>	<b>189,446</b>	<b>7,723</b>	<b>197,169</b>
Adoption of INT FRS 104	-	-	-	-	-	-	117	117	-	117
<b>As restated</b>	<b>25,728</b>	<b>62,693</b>	<b>987</b>	<b>(617)</b>	<b>(7,143)</b>	<b>2,852</b>	<b>105,063</b>	<b>189,563</b>	<b>7,723</b>	<b>197,286</b>
Reclassification	-	(286)	-	-	-	286	-	-	-	-
Effects of Companies (Amendment) Act 2005	62,407	(62,407)	-	-	-	-	-	-	-	-
Issue of shares under Employee Share Option Scheme	3,007	-	-	-	-	-	-	3,007	-	3,007
Fair value gain of financial derivatives	-	-	-	-	(696)	-	-	(696)	-	(696)
Reduction of MI due to disposal of a subsidiary	-	-	-	-	-	-	-	-	(3,044)	(3,044)
Capital contribution by MI	-	-	-	-	-	-	-	-	7,079	7,079
Foreign currency translation differences	-	-	-	(3,933)	-	-	-	(3,933)	(292)	(4,225)
Cost of share-based payment	-	-	-	-	-	3,150	-	3,150	-	3,150
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	7,114	7,114
Net profit for the year	-	-	-	-	-	-	16,954	16,954	(28)	16,926
Dividends	-	-	-	-	-	-	(6,963)	(6,963)	-	(6,963)
<b>At 31.12.2006</b>	<b>91,142</b>	<b>-</b>	<b>987</b>	<b>(4,550)</b>	<b>(7,839)</b>	<b>6,288</b>	<b>115,054</b>	<b>201,082</b>	<b>18,552</b>	<b>219,634</b>

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

	Attributable to shareholders of the Company							Minority interests S\$'000	Total equity S\$'000	
	Share capital	Share premium	Capital reserve	Foreign currency translation reserve	Hedging reserve	Employee share option reserve	Revenue reserve			
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000			
<b>Group</b>										
<b>At 1.1.2005</b>	<b>15,784</b>	<b>33,626</b>	<b>834</b>	<b>(1,527)</b>	<b>(16,651)</b>	<b>813</b>	<b>62,988</b>	<b>95,867</b>	<b>3,375</b>	<b>99,242</b>
Issue of shares for cash	1,186	34,398	-	-	-	-	-	35,584	-	35,584
Issue of shares under the Employee Share Option Scheme	250	2,891	-	-	-	-	-	3,141	-	3,141
Issue of bonus shares	8,508	(8,508)	-	-	-	-	-	-	-	-
Capital contribution by MI	-	-	-	-	-	-	-	-	2,241	2,241
Fair value gain of financial derivatives	-	-	-	-	9,508	-	-	9,508	-	9,508
Capital reserve arising on consolidation	-	-	153	-	-	-	-	153	(27)	126
Foreign currency translation differences	-	-	-	910	-	-	-	910	(776)	134
Cost of share-based payment	-	-	-	-	-	2,325	-	2,325	-	2,325
Transfer upon exercise of employee share options	-	286	-	-	-	(286)	-	-	-	-
Net profit for the year (restated)	-	-	-	-	-	-	46,393	46,393	2,910	49,303
Dividends	-	-	-	-	-	-	(4,318)	(4,318)	-	(4,318)
<b>At 31.12.2005 (restated)</b>	<b>25,728</b>	<b>62,693</b>	<b>987</b>	<b>(617)</b>	<b>(7,143)</b>	<b>2,852</b>	<b>105,063</b>	<b>189,563</b>	<b>7,723</b>	<b>197,286</b>

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

**Attributable to shareholders of the Company**

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

**Company**

<b>At 1.1.2006</b>	<b>25,728</b>	<b>62,693</b>	<b>379</b>	<b>2,852</b>	<b>56,570</b>	<b>148,222</b>
Reclassification	-	(286)	-	286	-	-
Effects of Companies (Amendment) Act 2005	62,407	(62,407)	-	-	-	-
Issue of shares under Employee Share Option Scheme	3,007	-	-	-	-	3,007
Fair value gain of financial derivatives	-	-	184	-	-	184
Cost of share-based payment	-	-	-	3,150	-	3,150
Net loss for the year	-	-	-	-	(3,294)	(3,294)
Dividends	-	-	-	-	(6,963)	(6,963)
<b>At 31.12.2006</b>	<b>91,142</b>	<b>-</b>	<b>563</b>	<b>6,288</b>	<b>46,313</b>	<b>144,306</b>

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

Attributable to shareholders of the Company

	Share capital S\$'000	Share premium S\$'000	Hedging reserve S\$'000	Employee share option reserve S\$'000	Revenue reserve S\$'000	Total equity S\$'000
<b>At 1.1.2005</b>	<b>15,784</b>	<b>33,626</b>	<b>5</b>	<b>813</b>	<b>36,906</b>	<b>87,134</b>
Issue of shares for cash	1,186	34,398	-	-	-	35,584
Issue of shares under the Employee Share Option Scheme	250	2,891	-	-	-	3,141
Issue of bonus shares	8,508	(8,508)	-	-	-	-
Fair value gain of financial derivatives	-	-	374	-	-	374
Cost of share-based payment	-	-	-	2,325	-	2,325
Transfer upon exercise of employee share options	-	286	-	(286)	-	-
Net profit for the year	-	-	-	-	23,982	23,982
Dividends	-	-	-	-	(4,318)	(4,318)
<b>At 31.12.2005</b>	<b>25,728</b>	<b>62,693</b>	<b>379</b>	<b>2,852</b>	<b>56,570</b>	<b>148,222</b>

Company

#### **4(c) Share capital**

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

For the financial year ended 31 December 2006, 4,274,000 new ordinary shares were issued pursuant to options exercised under the Hyflux Employee Shares Option Scheme ("Scheme"), of which 2,371,000 of the shares were issued in 4Q 2006.

For the financial year ended 31 December 2006, 8,280,000 options were granted under the Scheme, of which 5,380,000 employee share options were issued in 4Q 2006.

As at 31 December 2006, the number of outstanding and unexercised Options granted under the Scheme were 22,900,843 (31 December 2005: 27,712,196).

#### **5. AUDIT / REVIEW**

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

#### **6. AUDITORS' REPORT**

Not applicable.

#### **7. ACCOUNTING POLICIES**

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

#### **8. CHANGES IN THE ACCOUNTING POLICIES**

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

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

SingSpring Pte Ltd ("SingSpring"), a 50% joint venture, has signed a Water Purchase Agreement ("WPA") with Singapore's Public Utilities Board ("PUB") to supply treated water to PUB from a seawater desalination plant, which is developed, financed, designed, built, owned and operated by SingSpring. The supply arrangement is for a period of 20 years from December 2005. The plant is located on a piece of leasehold land which is under the name of SingSpring and the lease period is 30 years from January 2004. In accordance with the FRS 17 and INT FRS 104, this arrangement constitutes a finance lease.

The adoption of INT FRS 104 has been applied retrospectively and resulted in the following adjustments:

##### **1. Balance Sheet**

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

2. Income Statement

- a) An increase in finance lease income and operating and maintenance income by approximately S\$665,000 and a decrease in sale of desalinated water by approximately S\$702,000.
- b) A decrease in depreciation charge by approximately S\$154,000.

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

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

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

1. Balance Sheet

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

2. Income Statement

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

**9. REVIEW OF GROUP PERFORMANCE**

**9(a) Profit and Loss Analysis**

For the year ended 31 December 2006, the Group recorded a revenue of S\$129.8 million with profit after tax attributable to shareholders of S\$17.0 million.

**Revenue**

Group revenue for the year declined marginally to S\$129.8 million in FY 2006 as compared to last year. On the back of strong industrial order book from the pharmaceutical and biotechnological sectors, industrial sales grew by 59% year on year from S\$56.6 million to S\$90.1 million. Consumer division also saw a rebound during the year with S\$7.0 million sales, contributing 5% of Group's revenue. This is partially offset by lower municipal sales from the Middle East, Singapore and China. During the year, the Company increased its equity stake in SinoSpring Utility Ltd ("Sinospring") from 50% to 80%. This resulted in full elimination of the Engineering, Procurement and Construction (EPC) revenue from July 06 relating to projects in China under SinoSpring, which also contributed to 56% year-on-year decrease in municipal sales.

China continues to be the key revenue driver in 2006, contributing 71% of Group's total revenue, compared to 56% in 2005. This was driven by strong order book in the industrial sectors, partially offset by the elimination of EPC revenue relating to projects under SinoSpring. Singapore accounted for 21% of total Group revenue and comprised mainly of lease and operating & maintenance income from the SingSpring seawater desalination plant. Contributions from Singapore decreased by 20% to S\$27.0 million due to revenue recognised from the completion of the SingSpring plant last year. Revenue from the Middle East and the other regions were down by 56% due to lower sales from the Istithmar Middle East venture.

**Costs and Expenses**

Raw materials and consumables for the year ended 31 December 2006 declined 7% to S\$64.3 million as compared to S\$69.4 million in 2005. Gross profit margin improved from 47% to 50% for the Group which was contributed by higher margins from the Industrial sales.



Personnel expenses of S\$19.7 million have increased by S\$3.0 million or 18% mainly due to increase in headcount from 682 in 2005 to 798 in 2006. This investment in human capital is necessary to support the Group's direction to build on recurring income stream, to expand into markets such as India, Europe and the MENA region and to expand into new growth pillar such as the used oil recycling business. Other operating expenses, on the other hand, decreased by 14% to S\$12.4 million mainly due to lower professional fees and utilities costs. High utilities costs were incurred in 2005 mainly for the testing and commissioning of the SingSpring plant during the construction stage.

### **Non-operating expenses**

Other non-operating expenses in FY2006 mainly comprised exchange losses (realised and unrealised) and allowance for doubtful debts and obsolete inventories. Net financial expenses of S\$3.5 million for the current year were largely related to interest expense for the project financing loan of SingSpring seawater desalination plant and the term loan obtained by the Company. Fair value gain on financial instruments (unrealised) was S\$0.1 million as compared to S\$12.9 million last year because the financial instruments qualified for hedge accounting in FY2006 and the fair value adjustments were included in hedging reserve on the Balance Sheet.

In accordance with FRS103, a negative goodwill of S\$3.8 million which represented the excess of the fair values over the purchase prices of subsidiaries acquired during the year was recognised.

Tax expense of S\$4.8 million this year was S\$3.8 million higher than the previous year. The higher effective tax rate of 22% as compared to prior year's 2%, was mainly due to the higher provision for 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 share of profit after taxation by the minority shareholders was lower mainly due to the divestment of a subsidiary in the Middle East in FY2006.

### **Basic Earnings Per Share**

Basic earnings per share was 3.28 cents compared to 9.24 cents a year ago. The decrease in basic earnings per share was due to lower profits recorded for the year.

## **9(b) Balance Sheet Analysis**

### **Group**

#### **Non-Current Assets**

Non-current assets increased by S\$92.2 million, or 60% to S\$246.7 million compared to 31 December 2005 mainly due to acquisition of property, plant and equipment, increase in technology development costs, patents and licensing fees and higher lease receivables arising from subsidiaries acquired during the year. These increases were partially offset by the disposal of an associate.

#### **Non-Current Liabilities**

Non-current liabilities increased by 13% to S\$119.1 million from S\$105.7 million mainly due to the drawdown of revolving term loan of S\$36.5 million and increase in deferred tax liabilities of S\$3.8 million, offset by the reclassification of term loan of S\$30.9 million from non-current liabilities to current liabilities as the loan matures in 2007.

#### **Working Capital**

Total current assets reduced by 21% to S\$194.5 million from S\$246.7 million mainly due to lower cash and fixed deposits by S\$40.6 million as funds were used in acquisitions of non-current assets and lower amounts due from related parties of S\$11.8 million, partially offset by higher gross amounts due for contract work, other receivables, deposits and prepayments.

Total current liabilities increased by 4% to S\$102.4 million from S\$98.1 million mainly due to S\$30.9 million of interest bearing loans reclassified from long term liabilities, offset by lower trade payables of S\$16.4 million and advances from customers of S\$5.0 million.

Overall, working capital decreased by 38% to S\$92.1 million from S\$148.6 million.

#### Shareholders' Equity

Shareholders' equity increased by S\$11.5 million or 6% to S\$201.1 million from S\$189.6 million as of beginning of the year mainly resulted from net profit for the year of S\$16.9 million and issuance of shares under Employee Share Option Scheme of S\$3.0 million. These increases were partially offset by dividend payments of S\$7.0 million during the year.

#### Minority Interests

Minority interests increased by 140% to S\$18.6 million as of 31 December 2006 mainly due to minority interests in SinoSpring.

#### Net Debt to Equity Ratio

The net debt to equity ratio for the Group increased to 0.43 as of December 2006 from 0.05 as of December 2005 due to lower cash balances and higher amount of outstanding loans.

### **Company**

#### Non-Current Assets

Non-current assets increased by 62% to S\$147.8 million from S\$91.2 million largely due to higher investment and shareholders' loan to subsidiaries, partially offset by divestment of equity stake in the Middle East ventures.

#### Non-Current Liabilities

Increase in non-current liabilities of S\$5.8 million mainly arose from the drawdown of revolving term loan of S\$36.5 million, offset by the reclassification of the term loan facility of S\$30.9 million from non-current liabilities to current liabilities as the loan matures in 2007.

#### Working Capital

Total current assets reduced by 31% to S\$69.1 million mainly due to lower cash resulting from increased investment in subsidiaries.

Total current liabilities increased by 181% or S\$23.2 million to S\$36.0 million mainly due to interest bearing loans reclassified from long term liabilities, offset by lower advances from customers of S\$4.4 million.

#### Shareholders' Equity

Shareholders' equity for the Company decreased marginally to S\$144.3 million mainly due to a loss in the year and dividend payment, partially offset by issuance of shares under Employee Share Option Scheme and increase in Employee Share Option Reserve.

### **9(c) Cashflow Statement Analysis**

At the close of FY2006, the Group's cash position stood at S\$55.8 million, down by S\$40.6 million compared to a year ago.

Net cash used in operations was S\$14.0 million as compared to S\$26.1 million generated last year. This was primarily due to higher working capital requirements to support the growth in the business, with higher amounts paid to trade creditors of S\$25.4 million and higher tax payments of S\$1.2 million made during the year, offset by amounts received from related parties of S\$11.8 million.

Net cash used in investing activities increased by 6% to S\$59.3 million. During the year, the Group invested on property, plant and equipment, subsidiaries, and technology development (including patents and licensing fees paid), totalling S\$54.7 million.

Cash generated from financing activities of S\$37.2 million came mainly from the drawdown of revolving term loan, offset by interest payments of S\$9.1 million and dividend distribution of S\$7.0 million.

## 10. VARIANCE FROM PROSPECT STATEMENT

This is consistent with the prospect statement as disclosed in 3Q2006.

## 11. PROSPECT

The Group remains optimistic about the macro environment on the water, waste-water and used oil recovery sectors in China, India, South East Asia and the MENA Region.

### **Industrial Sector**

The growth in industrial sales is expected to remain strong, backed by a strong order book from the pharmaceutical and biotechnology sectors. The Group's proprietary technology on the wide range of membranes (polymeric, ceramic and stainless steel membranes) will enable the Group to provide customised and competitive solutions to customers from various sectors.

### **Municipal Sector**

#### **Singapore**

Following the announcement made by the Company on 12 February 2007, the Company has successfully completed the restructuring and divestment of its 20% equity interest in SingSpring plant to CitySpring Infrastructure Trust ("CitySpring"). The Company received S\$20.4 million in cash with a capital gain of approximately S\$8.0 million for divestment of its 20% equity interest in SingSpring plant. The Company will continue to own 30% interest in the SingSpring plant via its interest in SingSpring Trust and the Company's wholly-owned subsidiary, Hyflux Engineering Pte Ltd will continue to be the operator of the SingSpring desalination plant till year 2025.

#### **China**

The Group is currently delivering 13 projects under SinoSpring relating to seawater desalination, water and wastewater treatment and recycling for the municipal government and industrial park owners. These projects will generate 25 – 30 years of recurring revenue stream for the Group when they become operational. The Company has offered the trustee-manager of CitySpring the first right of refusal to purchase SinoSpring's portfolio of wholly-owned wastewater treatment and water treatment projects in China, subject to the terms of purchase being agreed.

#### **The MENA Region**

The Group has made significant progress in the MENA region with a significant win in Algeria of a S\$328 million (US\$205 million) EPC contract to design and build a 200MLD desalination plant in Algeria. This is the largest seawater desalination plant undertaken by the Group and marks a fresh footprint in the MENA region. The project is expected to complete within 24 months from financial close. The Group is finalising the various contracts relating to the project and is working with the Consortium partners to achieve financial close.

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

### **Consumer Sector**

Consumer sales has improved during the year and is expected to have a positive contribution to the Group's financials in the next 12 months. 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. The 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.

### **Used oil recovery Sector**

Our entry into used oil recovery using Hyflux Advanced Proprietary Membrane Systems (HAMS) is making good inroads into the target regions.

### **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 last year.

### **Funding**

The Group has 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 to fund new opportunities.

The Group has also successfully achieved a major milestone in our asset-light strategy following the completion of the restructuring by diversifying 20% interest in SingSpring plant to SingSpring Trust. 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 including the used oil recycling business. Such investments are necessary to generate future income for the Group. In the short term, the Group may have to incur financing costs as it drawdown on its financing facilities.

## **12. DIVIDEND**

### ***(a) Current Financial Period Reported On***

Any dividend recommended for the current financial period reported on?

Name of Dividend	First and Final
Dividend Type	Cash
Dividend Rate	1.35 cents per ordinary shares
Tax Rate	One tier tax exempt

### ***(b) Corresponding Period of the Immediately Preceding Financial Year***

Any dividend declared for the corresponding period of the immediately preceding financial year?

Name of Dividend	First and Final
Dividend Type	Cash
Dividend Rate	1.35 cents per ordinary shares
Tax Rate	One tier tax exempt

### ***(c) Date payable***

To be announced later

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

To be announced later

## SEGMENTAL REPORTING

### (a) Business Segments

	Municipal	Industrial	Others	Group
	S\$'000	S\$'000	S\$'000	S\$'000
<b>2006</b>				
<b><u>Segmented Results</u></b>				
External sales	32,722	90,148	6,967	129,837
<b>Operating profit</b>	7,143	15,526	(2,129)	20,540
Gain on sale of subsidiaries and an associate				1,655
Gain on sale of property, plant and equipment				52
Negative goodwill on acquisitions				3,839
Financial income				5,534
Financial expense				(9,078)
Fair value gain of financial instruments (unrealised)				115
Share of results of associates				(910)
Tax expense				(4,821)
Profit after taxation				<b>16,926</b>
<b><u>Balance Sheet</u></b>				
Assets	274,781	121,585	15,896	412,262
Unallocated assets				28,925
<b>Total assets</b>				<b>441,187</b>
Liabilities	124,400	19,341	1,536	145,277
Unallocated liabilities				76,276
<b>Total liabilities</b>				<b>221,553</b>
Capital expenditure	37,192	17,396	2,152	56,740
Depreciation and amortisation	976	3,064	914	4,954

	<b>Municipal</b>	<b>Industrial</b>	<b>Others</b>	<b>Group</b>
	<b>S\$'000</b>	<b>S\$'000</b>	<b>S\$'000</b>	<b>S\$'000</b>
<b>2005</b>				
<b><u>Segmented Results</u></b>				
External sales	74,135	56,580	789	131,504
<b>Operating profit</b>	<b>16,894</b>	<b>11,510</b>	<b>(3,001)</b>	<b>25,403</b>
Gain on sale of subsidiaries and an associate				3,768
Gain on sale of property, plant and equipment				8,198
Financial income				2,700
Financial expense				(2,547)
Fair value gain of financial instruments (Unrealised)				12,945
Share of results of associates				(93)
Tax expense				(1,071)
Profit after taxation				<b><u>49,303</u></b>
 <b><u>Balance Sheet</u></b>				
Assets	231,551	81,962	7,285	320,798
Unallocated assets				80,289
<b>Total assets</b>				<b><u>401,087</u></b>
Liabilities	142,365	25,971	1,322	169,658
Unallocated liabilities				34,143
<b>Total liabilities</b>				<b><u>203,801</u></b>
Capital expenditure	86,154	1,116	2,519	89,789
Depreciation and amortisation	2,567	830	604	4,001

**(b) Geographical Segments**

	Singapore		People's Republic of China		Others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
<b>Revenue :</b>								
External sales	27,018	33,923	92,221	73,463	10,598	24,118	129,837	131,504
<b>Others :</b>								
Segment assets	231,063	281,472	172,709	31,927	8,490	7,399	412,262	320,798
Unallocated assets							28,925	80,289
Total assets							441,187	401,087
Capital expenditure	16,184	88,342	34,830	1,183	5,726	264	56,740	89,789

**13. BREAKDOWN OF SALES**

	2006 S\$'000	2005 S\$'000 (Restated)	Increase/ (decrease)
Sales reported for first half year	71,179	43,069	65%
Profit after tax before minority interest reported for first half year	12,196	31,848	(62%)
Sales reported for second half year	58,658	88,435	(34%)
Profit after tax before minority interest reported for second half year	4,730	17,455	(73%)

**14. BREAKDOWN OF TOTAL ANNUAL DIVIDEND (IN DOLLAR VALUE)**

Total Annual Dividend (*Refer to Para 16 of Appendix 7.2 for the required details*)

	Latest Full Year (2006)	Previous Full Year (2005)
	\$'000	\$'000
Ordinary	6,963	4,318
Preference	-	-
Total	6,963	4,318

**BY ORDER OF THE BOARD**

Grace Goh Bee Kheng  
Company Secretary  
Submitted on 28 February 2007 to SGX-ST