



HYFLUX LTD

Registration number : 200002722Z

Unaudited Financial Statements For The Financial Year Ended 31 December 2007

The Directors of Hyflux Ltd wish to announce the unaudited results of the Group for the financial year ended 31 December 2007.

1 (a)(i) CONSOLIDATED PROFIT AND LOSS ACCOUNT for the financial year ended 31 December 2007

	31 Dec 07 S\$'000	31 Dec 06 S\$'000 (Restated)	+ / (-) %
Revenue	192,786	142,379	35%
Raw materials and consumables	(105,998)	(77,767)	36%
Personnel expenses	(30,721)	(20,042)	53%
Cost of share-based payment	(3,131)	(3,150)	(1%)
Other operating expenses	(10,369)	(14,481)	(28%)
Depreciation and amortisation	(7,198)	(4,969)	45%
Gain on sale of partial interest in a joint venture [Note 1(a)(ii)]	8,185	-	NM
Gain on sale of a subsidiary and an associate [Note 1(a)(ii)]	-	1,655	NM
(Loss) / gain on sale of property, plant and equipment	(4)	52	NM
Negative goodwill on acquisitions of subsidiaries / businesses	2,620	3,839	(32%)
Finance income	2,047	5,534	(63%)
Finance expenses	(8,377)	(9,078)	(8%)
Fair value (loss) / gain on derivative financial instruments	(3,532)	115	NM
Share of profit / (loss) of associates	1,277	(910)	NM
Other non-operating income / (expenses)	1,108	(2,999)	NM
Profit before taxation	38,693	20,178	92%
Tax expense	(2,048)	(4,821)	(58%)
Profit after taxation	36,645	15,357	139%
Attributable to:			
Shareholders of the Company	32,949	15,473	113%
Minority interests	3,696	(116)	NM
	36,645	15,357	139%

NM: Not meaningful

NOTES TO CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

	31 Dec 07 S\$'000	31 Dec 06 S\$'000
Impairment of trade receivables	(45)	(1,433)
Provision for inventory obsolescence and inventory written down	(657)	(1,252)
Foreign exchange gain / (loss) - net	<u>8,799</u>	<u>(2,813)</u>

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

	S\$'000	S\$'000
Cash proceeds 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	<u>(143)</u>	-
Gain on sale of partial interest in a joint venture	<u>8,185</u>	<u>-</u>

Gain on sale of a subsidiary and an associate is arrived as follows: -

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

1 (b)(i) BALANCE SHEETS

	Group		Company	
	31 Dec 07 S\$'000	31 Dec 06 S\$'000 (Restated)	31 Dec 07 S\$'000	31 Dec 06 S\$'000
<u>NON-CURRENT ASSETS</u>				
Property, plant and equipment	62,573	35,885	7,612	4,347
Intangible assets	40,499	39,002	4,182	3,408
Investment in subsidiaries	-	-	135,592	104,654
Investment in joint ventures	-	-	-	20,000
Investment property	2,373	-	-	-
Investment in associates	87,886	5,202	12,277	-
Financial and lease receivables	8,289	156,990	-	-
Long term investments	7,927	5,997	809	899
Other receivables	-	3,979	-	-
Due from related parties (non-trade)	-	-	18,833	14,515
Deferred tax assets	1,218	505	-	-
Total non-current assets	210,765	247,560	179,305	147,823
<u>CURRENT ASSETS</u>				
Gross amounts due for contract work	93,257	48,906	9,527	14,031
Inventories	20,641	11,193	17,498	8,506
Trade receivables	46,110	30,734	1,148	1,165
Financial and lease receivables	187	757	-	-
Other receivables and deposits	31,740	19,956	3,377	1,819
Prepayments	6,582	5,571	1,327	1,608
Due from related parties (trade)	15,216	15,741	22,673	15,929
Due from related parties (non-trade)	4,787	1,433	155,412	31,145
Short term loans	-	98	-	-
Derivative financial instruments	-	3,758	-	228
Cash and fixed deposits	121,047	55,827	6,074	4,694
Total current assets	339,567	193,974	217,036	79,125
<u>CURRENT LIABILITIES</u>				
Trade payables	55,022	35,277	1,172	1,012
Other payables and accruals	17,747	13,780	3,216	2,007
Progress payments from customers	25,989	3,358	2,080	2,062
Interest bearing loans and borrowings	5,245	33,663	105,188	30,902
Derivative financial instruments	-	4,995	-	-
Finance lease liabilities	104	576	-	-
Deferred income	2,113	10,436	88	-
Due to related parties (trade)	-	-	845	30
Due to related parties (non-trade)	1,796	1,273	36,741	9,952
Tax payable	202	973	-	-
Total current liabilities	108,218	104,331	149,330	45,965
Net current assets	231,349	89,643	67,706	33,160
<u>NON-CURRENT LIABILITIES</u>				
Interest bearing loans and borrowings	193,266	115,001	90,408	36,518
Finance lease liabilities	187	-	-	-
Deferred tax liabilities	2,875	4,136	159	159
Total non-current liabilities	196,328	119,137	90,567	36,677
Net assets	245,786	218,066	156,444	144,306

	Group		Company	
	31 Dec 07 S\$'000	31 Dec 06 S\$'000 (Restated)	31 Dec 07 S\$'000	31 Dec 06 S\$'000
<u>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY</u>				
Share capital	95,820	91,142	95,820	91,142
Capital reserve	1,064	987	-	-
Foreign currency translation reserve	(3,096)	(4,550)	-	-
Hedging reserve	(4,222)	(7,839)	-	563
Employee share option reserve	9,419	6,288	9,419	6,288
Revenue reserve	139,506	113,573	51,205	46,313
Shareholders' equity	238,491	199,601	156,444	144,306
Minority interests	7,295	18,465	-	-
Total equity	245,786	218,066	156,444	144,306
<i>Group net borrowings (S\$)</i>	77,755	93,413	NM	NM
<i>Group net gearing (times)</i>	0.32x	0.43x	NM	NM

NOTES TO BALANCE SHEETS

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

Amount repayable in one year or less, or on demand

31 Dec 07		31 Dec 06	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
104	5,245	2,543	31,696

Amount repayable after one year

31 Dec 07		31 Dec 06	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
2,857	190,596	78,483	36,518

Details of any collateral

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

**1 (c) CONSOLIDATED CASHFLOW STATEMENT
for the financial year ended 31 December 2007**

	31 Dec 07 S\$'000	31 Dec 06 S\$'000 (Restated)	+ / (-) %
Cash flows from operating activities			
Profit before taxation	38,693	20,178	
Adjustments:			
Cost of share-based payment	3,131	3,150	
Fair value loss / (gain) of financial instruments	3,532	(115)	
Gain on sale of partial interest in a joint venture	(8,185)	-	
Gain on sale of a subsidiary and an associate	-	(1,655)	
Loss / (gain) on sale of property, plant and equipment	4	(52)	
Share of (profit) / loss of associates	(1,277)	910	
Depreciation and amortisation	7,198	4,969	
Finance expenses	8,377	9,078	
Finance income	(2,047)	(5,534)	
Negative goodwill on acquisitions of subsidiaries / business	(2,620)	(3,839)	
Impairment of trade receivables	45	1,433	
Provision for inventory obsolescence and inventory written down	657	1,252	
Government grants	(78)	(384)	
Operating cash flows before working capital changes	<u>47,430</u>	<u>29,391</u>	61%
Working Capital Changes :			
Inventories	(10,105)	(1,118)	
Gross amounts due for contract work	(44,834)	(10,096)	
Trade receivables	(12,925)	(620)	
Financial and lease receivables	66,543	(29,435)	
Other receivables, deposits and prepayments	(7,094)	4,858	
Due from related parties	(8,734)	11,753	
Trade payables	20,165	(25,440)	
Other payables and accruals	4,698	338	
Progress payments from customers	22,631	(5,042)	
Deferred income	2,084	(21)	
Derivative financial instruments	111	166	
Total working capital changes	<u>32,540</u>	<u>(54,657)</u>	
Cash generated from / (used in) operating activities	79,970	(25,266)	
Tax paid	(2,138)	(1,582)	
Net cash from / (used in) operating activities	<u>77,832</u>	<u>(26,848)</u>	NM

	31 Dec 07 S\$'000	31 Dec 06 S\$'000 (Restated)	+ / (-) %
Cash flows from investing activities			
Purchase of property, plant and equipment	(30,393)	(19,040)	
Acquisition of intangible assets	(278)	(11,000)	
Cash outflow from sales of a subsidiary and an associate <small>[Note 1 (c)(ii)]</small>	-	(4,521)	
Sale of a subsidiary and an associate, net of cash disposed of <small>[Note 1 (c)(i)]</small>	16,059	-	
Proceeds from sale of property, plant and equipment	78	129	
Long term investments	(1,929)	-	
Short term investments	-	2,000	
Acquisition of associates	(91,873)	(4,309)	
Acquisition of subsidiaries / business, net of cash acquired <small>[Note 1 (c)(iii)]</small>	(36,012)	(10,871)	
Interest received	2,047	1,649	
Government grants received	78	384	
Net cash used in investing activities	(142,223)	(45,579)	212%
Cash flows from financing activities			
Proceeds from issuance of new shares under Employee's Share Option Scheme	4,677	3,007	
Proceeds from borrowings (net)	140,759	39,276	
Repayment of lease liabilities	(286)	(10)	
Interest paid	(8,878)	(9,078)	
Interest received from derivatives	501	3,886	
Minority shareholders' contribution	77	7,079	
Payments of dividends	(7,016)	(6,963)	
Net cash from financing activities	129,834	37,197	249%
Net increase/(decrease) in cash and cash equivalents	65,443	(35,230)	
Cash and cash equivalents at beginning of the year	55,827	96,412	
Effect of exchange rate changes	(223)	(5,355)	
Cash and cash equivalents at end of the year	121,047	55,827	117%

NOTES TO CONSOLIDATED CASHFLOW STATEMENT

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

	31 Dec 07 S\$'000	31 Dec 06 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 a subsidiary and an associate disposed were as follows :

	31 Dec 07 S\$'000	31 Dec 06 S\$'000
Current assets	-	23,505
Non-current assets	-	7,218
Current liabilities	-	(17,128)
Non-current liabilities	-	(5)
Minority interest	-	(3,044)
Net assets sold	-	10,546
Gain on sale of a subsidiary	-	1,655
Professional fee incurred	-	104
Cash proceeds from sale	-	12,305
Less: Cash in subsidiary and associate	-	(16,722)
Less: Professional fee incurred	-	(104)
Cash outflow on sale of a subsidiary and an associate	-	(4,521)

1 (c)(iii) The fair values of the identifiable assets and liabilities of subsidiaries / business acquired were as follows :

	31 Dec 07	31 Dec 06
	S\$'000	S\$'000
Cash	4,594	3,332
Current assets	34,473	14,073
Non-current assets	24,228	37,730
Current liabilities	(9,409)	(26,057)
Non-current liabilities	(12,553)	(6,834)
Minority interest	-	(7,114)
Net assets acquired	41,333	15,130
Positive goodwill on consolidation	1,893	3,969
Negative goodwill on consolidation	(2,620)	(3,839)
Purchase consideration	40,606	15,260
Less: Deposits	-	(1,057)
Less: Cash of subsidiaries acquired	(4,594)	(3,332)
Cash outflow on acquisition of subsidiaries / business	36,012	10,871

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

	Attributable to shareholders of the Company						Minority interests S\$'000	Total equity S\$'000	
	Issued share capital S\$'000	Capital reserve S\$'000	Foreign currency translation reserve S\$'000	Hedging reserves S\$'000	Employee share option reserves S\$'000	Revenue reserve S\$'000			Total S\$'000
	Group - 2007								
At 1.1.2007	91,142	987	(4,550)	(7,839)	6,288	115,054	201,082	18,552	219,634
Adoption of INT FRS 112 - Service Concession Arrangements	-	-	-	-	-	(1,481)	(1,481)	(88)	(1,569)
As restated	91,142	987	(4,550)	(7,839)	6,288	113,573	199,601	18,464	218,065
Net fair value gain of derivative financial instruments	-	-	-	4,180	-	-	4,180	-	4,180
Recognised in profit and loss account on maturity of financial instruments	-	-	-	(563)	-	-	(563)	-	(563)
Foreign currency translation differences	-	-	1,454	-	-	-	1,454	34	1,488
Net income/(expense) recognised directly in equity	-	-	1,454	3,617	-	-	5,071	34	5,105
Net profit for the year	-	-	-	-	-	32,949	32,949	3,696	36,645
Total recognised income/(expense) for the year	-	-	1,454	3,617	-	32,949	38,020	3,730	41,750
Issue of shares for cash under Employees' Share Option Scheme	4,678	-	-	-	-	-	4,678	-	4,678
Cost of share-based payment	-	-	-	-	3,131	-	3,131	-	3,131
Acquisition of a subsidiary	-	77	-	-	-	-	77	(14,899)	(14,822)
Dividends	-	-	-	-	-	(7,016)	(7,016)	-	(7,016)
At 31.12.2007	95,820	1,064	(3,096)	(4,222)	9,419	139,506	238,491	7,295	245,786

Attributable to shareholders of the Company

	Issued share capital	Share premium	Capital reserve	Foreign currency translation reserve	Hedging reserves	Employee share option reserves	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	S\$'000
Group – 2006										
(Restated)										
At 1.1.2006	25,728	62,693	987	(617)	(7,143)	2,852	105,063	189,563	7,723	197,286
Net fair value loss of derivative financial instruments	-	-	-	-	(696)	-	-	(696)	-	(696)
Foreign currency translation differences	-	-	-	(3,933)	-	-	-	(3,933)	(292)	(4,225)
Net income/(expense) recognised directly in equity	-	-	-	(3,933)	(696)	-	-	(4,629)	(292)	(4,921)
Net profit for the year	-	-	-	-	-	-	15,473	15,473	(116)	15,357
Total recognised income/(expense) for the year	-	-	-	(3,933)	(696)	-	15,473	10,844	(408)	10,436
Effects of Companies (Amendment) Act 2005	62,407	(62,407)	-	-	-	-	-	-	-	-
Issue of shares for cash under Employees' Share Option Scheme	3,007	(286)	-	-	-	286	-	3,007	-	3,007
Cost of share-based payment	-	-	-	-	-	3,150	-	3,150	-	3,150
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	7,114	7,114
Reduction of minority interests due to disposal of a subsidiary	-	-	-	-	-	-	-	-	(3,044)	(3,044)
Capital contribution by minority interests	-	-	-	-	-	-	-	-	7,079	7,079
Dividends	-	-	-	-	-	-	(6,963)	(6,963)	-	(6,963)
At 31.12.2006	91,142	-	987	(4,550)	(7,839)	6,288	113,573	199,601	18,464	218,065

Attributable to shareholders of the Company

	Issued share capital	Share premium	Hedging reserves	Employee share option reserves	Revenue reserve	Total
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Company						
At 1.1.2007	91,142	-	563	6,288	46,313	144,306
Recognised in profit and loss account on maturity of financial instruments	-	-	(563)	-	-	(563)
Net income/(expense) recognised directly in equity	-	-	(563)	-	-	(563)
Net profit for the year	-	-	-	-	11,908	11,908
Total recognised income/(expense) for the year	-	-	(563)	-	11,908	11,345
Issue of shares for cash under Employees' Share Option Scheme	4,678	-	-	-	-	4,678
Cost of share-based payment	-	-	-	3,131	-	3,131
Dividends	-	-	-	-	(7,016)	(7,016)
At 31.12.2007	95,820	-	-	9,419	51,205	156,444
At 1.1.2006	25,728	62,693	379	2,852	56,570	148,222
Net fair value gain of derivative financial instruments	-	-	184	-	-	184
Net income/(expense) recognised directly in equity	-	-	184	-	-	184
Net loss for the year	-	-	-	-	(3,294)	(3,294)
Total recognised income/(expense) for the year	-	-	184	-	(3,294)	(3,110)
Effects of Companies (Amendment) Act 2005	62,407	(62,407)	-	-	-	-
Issue of shares for cash under Employees' Share Option Scheme	3,007	(286)	-	286	-	3,007
Cost of share-based payment	-	-	-	3,150	-	3,150
Dividends	-	-	-	-	(6,963)	(6,963)
At 31.12.2006	91,142	-	563	6,288	46,313	144,306

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue-, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year

1. For the financial year ended 31 December 2007, 4,495,500 new ordinary shares were issued pursuant to options exercised under the Hyflux Employees Shares Options Scheme ("Scheme") (31 December 2006: 4,328,000).
2. For the financial year ended 31 December 2007, 5,580,000 options were granted under the Scheme (31 December 2006: 8,280,000).
3. As at 31 December 2007, the number of outstanding and unexercised Options granted under the Scheme was 22,336,968 (31 December 2006: 22,682,843).
4. As at 31 December 2007, the Group is not holding any treasury shares.

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 financial statements have not been audited or reviewed by our auditors.

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

Except as disclosed in paragraph 5 below, the Group has consistently applied the same accounting policies and methods of computation in the financial statements for the current financial year compared with those of the audited financial statements for the year ended 31 December 2006.

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

- (a) On 1 January 2007, the Group adopted the new and revised Financial Reporting Standards ("FRS") and Interpretations of FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The following are the new or amended FRS and INT FRS that are relevant to the Group:

Amendments to FRS 1	Presentation of Financial Statements – Capital Disclosure
FRS 40	Investment Property
FRS 107	Financial Instruments: Disclosures

The adoption of these new / revised FRS and INT FRS did not result in any substantial changes to the Group's accounting policies nor any significant impact on the financial statements. FRS 107 and the complementary amended FRS 1 introduce new disclosures relating to financial instruments and capital management respectively.

- (b) With effect from 1 January 2007, the Group has early adopted INT FRS 112 Service Concession Arrangements.

INT FRS 112 requires the recognition of construction revenue and the corresponding financial receivable and/or intangible asset for public-to-private service concession arrangement if:

- the party that grants the service arrangement (the “grantor”) controls or regulates what services the entity (the “operator”) must provide with the infrastructure, to whom it must provide them, and at what price; and
- the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure asset at the end of the term of arrangement.

The Group has concession arrangements with the various governing bodies or agencies of the government of the People’s Republic of China (the “grantor”) to supply treated water from water treatment plants, and operate waste water treatment plants and water recycling plants. Under the concession arrangements, the Group will construct and/or operate the plants for Concession Periods of between 20 to 30 years and transfer the plants to the grantors at the end of the Concession Periods. Such concession arrangements fall within the scope of the INT FRS 112. Under the Group’s accounting policies, the revenue for the construction services provided under the arrangements and the corresponding financial receivables and/or intangible assets arising are recognised based on the percentage of completion method during the construction phase.

The change in the accounting policy is applied retrospectively. The financial effects of the adoption that are material to the balance sheet and profit and loss account items are as follows:

	<u>2007</u>	<u>2006</u>
	S\$’000	S\$’000
<u>Consolidated balance sheet</u>		
<i>Increase/(decrease) in:</i>		
Property, plant and equipment	(7,954)	(13,023)
Financial and lease receivables	8,476	15,653
<u>Consolidated profit and loss account</u>		
<i>Increase/(decrease) in:</i>		
Revenue	19,070	12,542
Raw materials and consumables used	15,234	13,435
Finance income	(136)	*
Finance expense	743	-

* Balance less than S\$1,000.

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**

	31 Dec 07	31 Dec 06
	Cents	Cents
		(Restated)
Earnings per ordinary share after deducting any provision for preference dividends were:		
Based on the weighted average of 521,256,402 (31 Dec 2006: 516,507,735) ordinary shares in issue; and	6.32	3.00
On a fully diluted basis of 528,951,975 (31 Dec 2006: 521,510,263) ordinary shares	6.23	2.97

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.**

	31 Dec 07	31 Dec 06
	Cents	Cents
		(Restated)
Net assets value per ordinary share of:		
Group	45.7	38.3
Company	30.0	27.7

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) Profit and Loss Account Analysis

Revenue

The Group's revenue increased by 35% to \$192.8 million for the year ended 31 December 2007, compared to \$142.4 million for the previous year.

Municipal sales were higher by 96% to \$89.0 million for this financial year from \$45.3 million for the previous year mainly due to higher municipal revenue from China and the Middle East and North Africa ("MENA").

Industrial sales were higher by 14% to \$102.3 million from \$90.1 million.

China continued to be the main revenue driver, contributing 81% of total revenue for the year as compared to 74% in the previous year. MENA accounted for 12% of total revenue in this financial year as compared to 7% in the previous year.

Costs and Expenses

Raw materials and consumables increased by 36% to \$106.0 million from \$77.8 million in line with the sales volume.

Personnel expenses increased by 54% to \$30.7 million from \$20.0 million for the previous year as the Group continues to invest in human capital which is necessary to support the Group's expansion plans and research and development activities. Additional cost was also incurred in relation to the Hyflux Water Trust's IPO exercise.

Depreciation and amortisation increased by 44% from \$5.0 million to \$7.2 million this financial year due to the increase in property, plant and equipment and intangible assets.

In February 2007, the Group recorded a \$8.2 million gain on partial sale of its 50% joint venture, SingSpring Pte Ltd ("SingSpring") which owns a seawater desalination plant. Subsequent to the divestment, the Group holds 30% interest in the desalination plant via SingSpring Trust. As a result, the investment is classified as investment in associates as at 31 December 2007.

The finance income decreased mainly due to the decrease in interest income earned.

The fair value loss on derivative financial instruments arose mainly from the transfer of approximately \$3.2 million of the hedging reserve to the profit and loss account upon the divestment of SingSpring in February 2007.

For the year ended 31 December 2007, the Group recognised a negative goodwill amounting to approximately \$2.6 million arising from acquisition of a business.

Foreign exchange gain in 2007 was mainly due to the translation of a loan facility denominated in US dollar as a result of the weakening US dollar.

The effective tax rate of the Group of 5% was lower than the statutory tax rate due to tax exemptions on certain income for the year and tax incentives enjoyed by certain entities of the Group.

Overall, the net impact of the above resulted in profit after tax and minority interests for the Group of \$32.9 million for the financial year ended 31 December 2007.

Earnings Per Share

The increase in basic earnings per share and fully diluted earnings per share as compared to the previous year was due to the higher profit for the financial year ended 31 December 2007.

8(b) Balance Sheets Analysis

Group

Total equity

The Group's shareholders' equity increased from \$199.6 million in 2006 to \$238.5 million in 2007. The increase was mainly attributable to the profits for the year. This was partly offset by a total dividend payout of \$7.0 million in 2007.

Non-current assets

Non-current assets decreased from \$247.6 million as at 31 December 2006 to \$210.8 million as at 31 December 2007. This was mainly due to the divestment of the SingSpring desalination plant in February 2007 and the sale of the Group's 13 plants in China to Hyflux Water Trust in December 2007. These have resulted in a decrease in financial and lease receivables of \$148.7 million. The decrease in financial and lease receivables was offset by an increase in investment in associates of \$82.7 million, mainly due to the Group's new investment in Hyflux Water Trust in December 2007 representing 31.5% investment, as well as the reclassification of the Group's investment in the SingSpring plant from a joint venture to an associate in February 2007. In addition, book value of property, plant and equipment increased by \$26.7 million mainly due to the expansion of overseas operations.

Non-current liabilities

Non-current liabilities increased to \$196.3 million as at 31 December 2007 from \$119.1 million as at 31 December 2006. The increase was mainly due to the additional drawdown of bank loans during the financial year to support the Group's expansion.

Balance Sheet – Company

Non-current assets increased by 21% to \$179.3 million as at 31 December 2007 from \$147.8 million as at 31 December 2006, mainly due to the increase in investments in subsidiaries and associates, and property, plant and equipment.

Current assets increased to \$217.0 million as at 31 December 2007 from \$79.1 million as at 31 December 2006 mainly due to shareholder's loan of approximately \$124.3 million granted to subsidiaries and the increase in inventory balance of \$9.0 million, in line with the increased operating activities.

Current liabilities increased to \$149.3 million as at 31 December 2007 from \$46.0 million as at 31 December 2006 mainly due to the additional drawdown of bank loan and increased in amounts due to related parties (non-trade) during this financial year.

Non-current liabilities increased to \$90.6 million as at 31 December 2007 from \$36.7 million as at 31 December 2006 as a result of the additional drawdown of bank loan during this financial year.

Shareholders' equity for the Company increased by \$12.1 million to \$156.4 million as at 31 December 2007 from \$144.3 million as at 31 December 2006. New shares of approximately \$4.7 million were issued during the financial year, whilst the employee share option reserve increased by \$3.1 million.

Cashflow Statement

The Group's cash position was \$121.0 million, up by \$65.2 million compared to 2006.

In 2007, the Group generated cash from its operations of \$77.8 million mainly due to improvement in working capital.

Cash used in investing activities for this financial year was mainly on the acquisition of property, plant and equipment and investments in subsidiaries and associates.

The increase in cash generated from financing activities as compared to the previous year was due to the additional bank loan drawn down.

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 fundamentals of environmental and water industries are excellent. The Group is expected to benefit from these strong industry fundamentals. The Group will continue to leverage on our proprietary membrane technologies and integrated environmental solutions, and to focus on our growth plan in target markets such as China, India, the Middle East and Northern African Region ("MENA").

Municipal Sector

China

China remains a dominant market for the Group. Our established track record, know-how and differentiated capabilities provide us with a strong platform to continue our growth in this key market.

To date, we see a steady pipeline of water projects in China. With the latest three new water treatment projects in Jiangxi, Jiangsu and Hunan Province in China announced in January 2008, the Group has now under operation and construction 31 municipal projects, which comprise a total of 39 water treatment plants in China.

In addition, the Group has long-term operation and maintenance contracts with our operational plants in China which will generate recurring income for the next 25-30 years.

The Group delivered another milestone through the successful launch of the Hyflux Water Trust ("HWT"). With HWT, the Group will be able to continuously enhance shareholders' value through our growing pipeline and portfolio of water projects.

MENA

In the MENA region, the Group has achieved financial close for the seawater desalination plant project in Tlemcen, Algeria in January 2008. The Engineering, Procurement and Construction ("EPC") works estimated at US\$213 million (approximately S\$304 million) will be undertaken by wholly owned subsidiaries of the Group. The construction of the Project is expected to be completed within 24 months from financial close.

Industrial Sector

The orders from the Industrial sector remain robust and provide steady revenue contribution to the Group.

Our used-oil recycling projects in Saudi Arabia and Vietnam continue to progress steadily.

Our technology and research and development activities will continue to play a significant role in our overall business strategy and innovation efforts. Our collaborations with BP International Ltd (“BP”) and the Dalian Institute of Chemical Physics (“DICP”) to develop the use of zeolite dewatering membranes in the production of biofuels, as well as our R&D joint venture with Marmon Water LLC to develop new products to provide clean, filtered and softened water for Asian homes are currently making good progress.

Taking into account of the current economic uncertainty, the Group closely monitor and manage any factors that may have an impact on our operations.

11. 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	1.89 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

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

Not applicable

13. Segmental Reporting

(a) Business Segments

	Municipal	Industrial	Others	Group
	S\$'000	S\$'000	S\$'000	S\$'000
2007				
<u>Segmented Results</u>				
External sales	88,971	102,347	1,468	192,786
Operating profit / (loss)	27,304	10,253	(2,188)	35,369
Gain on sale of partial interest in a joint venture				8,185
Gain on sale of property, plant and equipment				(4)
Negative goodwill on acquisitions of subsidiaries / business				2,620
Finance income				2,047
Finance expense				(8,377)
Fair value loss of financial instruments				(3,532)
Share of profit of associates				1,277
Other non-operating income				1,108
Tax expense				(2,048)
Profit after taxation				36,645
<u>Balance Sheet</u>				
Assets	254,375	112,588	13,097	380,060
Unallocated assets				170,272
Total assets				550,332
Liabilities	63,524	40,935	1,031	105,490
Unallocated liabilities				199,056
Total liabilities				304,546
Capital expenditure	12,636	16,605	1,430	30,671
Depreciation and amortisation	4,347	995	1,856	7,198

	Municipal	Industrial	Others	Group
	S\$'000	S\$'000	S\$'000	S\$'000
2006				
<u>Segmented Results</u>				
External sales	45,264	90,148	6,967	142,379
Operating profit / (loss)	5,858	16,884	(772)	21,970
Gain on sale of subsidiaries and an associate				1,655
Gain on sale of property, plant and equipment				52
Negative goodwill on acquisitions of subsidiaries / business				3,839
Finance income				5,534
Finance expense				(9,078)
Fair value gain of financial instruments				115
Share of loss of associates				(910)
Other non-operating expenses				(2,999)
Tax expense				(4,821)
Profit after taxation				15,357
<u>Balance Sheet</u>				
Assets	274,293	121,585	15,896	411,774
Unallocated assets				29,760
Total assets				441,534
Liabilities	123,910	19,342	1,536	144,788
Unallocated liabilities				78,680
Total liabilities				223,468
Capital expenditure	10,560	17,396	2,084	30,040
Depreciation and amortisation	991	3,064	914	4,969

(b) Geographical Segments

	Singapore		People's Republic of China		MENA & Others		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Revenue :								
External sales	12,830	27,018	156,933	104,763	23,023	10,598	192,786	142,379
Others :								
Segment assets	183,345	230,575	186,944	172,709	9,771	8,490	380,060	411,774
Unallocated assets							170,272	29,760
Total assets							550,332	441,534
Capital expenditure	15,137	16,184	14,501	8,198	1,033	5,658	30,671	30,040

14. Breakdown of Sales

	2007 S\$'000	2006 S\$'000 (Restated)	Increase/ (decrease)
Sales reported for first half year	66,085	98,311	(33%)
Profit after tax before minority interest reported for first half year	7,748	12,368	(37%)
Sales reported for second half year	126,701	44,068	188%
Profit after tax before minority interest reported for second half year	28,897	2,989	867%

15. Breakdown of Total Annual Dividend (In Dollar Value)

	Latest Full Year (2007) S\$'000	Previous Full Year (2006) S\$'000
Ordinary	7,016	6,963
Preference	-	-
Total	<u>7,016</u>	<u>6,963</u>

BY ORDER OF THE BOARD

Yang Ai Chian
Company Secretary
27 February 2007