



HYFLUX LTD
Registration number : 200002722Z

Unaudited Financial Statements For The Financial Year Ended 31 December 2009

The Directors of Hyflux Ltd wish to announce the unaudited results of the Group for the financial year ended 31 December 2009.

1 (a)(i) CONSOLIDATED INCOME STATEMENT for the financial year ended 31 December 2009

| | <u>The Group</u> | | |
|---|------------------|---------------|--------|
| | 2009 | 2008 | Change |
| | S\$'000 | S\$'000 | % |
| Revenue | 524,814 | 554,224 | (5) |
| Other income | 6,707 | 5,264 | 27 |
| Changes in inventories of finished goods and work-in-progress | 1,332 | 3,710 | (64) |
| Raw materials and consumables used and subcontractors' cost | (309,371) | (387,767) | (20) |
| Staff costs | (59,428) | (52,606) | 13 |
| Depreciation, amortisation and impairment | (16,521) | (9,718) | 70 |
| Other expenses | (57,936) | (31,110) | 86 |
| Finance costs | (9,259) | (10,222) | (9) |
| Share of profit/(loss) of associates, net of tax | 2,634 | (1,400) | NM |
| Profit before taxation [Note 1(a)(iii)] | 82,972 | 70,375 | 18 |
| Taxation | (8,681) | (8,157) | 6 |
| Profit for the year | 74,291 | 62,218 | 19 |
| Profit attributable to: | | | |
| Owners of the Company | 75,036 | 59,036 | 27 |
| Minority interests | (745) | 3,182 | NM |
| | 74,291 | 62,218 | 19 |

NM: Not meaningful

**1 (a)(ii) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the financial year ended 31 December 2009**

| | <u>The Group</u> | | Change % |
|---|------------------|-----------------|-------------|
| | 2009 S\$'000 | 2008 S\$'000 | |
| Profit for the year | 74,291 | 62,218 | 19 |
| Other comprehensive income | | | |
| Foreign currency translation differences for foreign operations | (5,117) | 11,556 | NM |
| Net change in fair value of cash flow hedges | 67 | (9,885) | NM |
| Net change in fair value of cash flow hedges transferred to profit or loss | 6,069 | 1,017 | NM |
| Share of net fair value gain/(loss) on derivative financial instruments of associates | 644 | (406) | NM |
| Share of statutory reserve of associates | 102 | - | NM |
| Other comprehensive income for the year, net of tax | 1,765 | 2,282 | NM |
| Total comprehensive income for the year | 76,056 | 64,500 | 18 |
| Attributable to: | | | |
| Owners of the Company | 77,204 | 60,834 | 27 |
| Minority interests | (1,148) | 3,666 | NM |
| | 76,056 | 64,500 | 18 |

NM: Not meaningful

NOTES TO CONSOLIDATED INCOME STATEMENT

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

| | <u>The Group</u> | | Change % |
|---|------------------|-----------------|-------------|
| | 2009 S\$'000 | 2008 S\$'000 | |
| Fair value loss on derivative financial instruments | (479) | (680) | (30) |
| Finance income | 3,258 | 4,770 | (32) |
| Impairment of trade and other receivables (net) | (1,845) | (3,088) | (40) |
| Impairment of investments | (2,058) | - | NM |
| Net foreign exchange (loss)/gain | (2,110) | 10,119 | NM |
| Net loss on sale of property, plant and equipment | (1,392) | (42) | NM |
| Gain on sale of other investments | 44 | - | NM |
| Allowance for inventory obsolescence | (863) | (366) | NM |

NM: Not meaningful

1(b)(i) **BALANCE SHEETS as at 31 December 2009**

| | The Group | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| <u>Non-current assets</u> | | | | |
| Property, plant and equipment | 134,926 | 56,857 | - | 8 |
| Intangible assets | 89,615 | 66,523 | 1,810 | 1,826 |
| Investment property | 2,116 | 2,244 | - | - |
| Investments in subsidiaries | - | - | 130,920 | 131,073 |
| Investments in joint venture | - | - | 3,125 | 2,375 |
| Investments in associates | 102,654 | 94,716 | 12,955 | 12,608 |
| Other investments | 99 | 908 | - | 899 |
| Financial and lease receivables | 155,947 | 194,204 | - | - |
| Trade and other receivables | 35,312 | 44,137 | 18,296 | 19,832 |
| Deferred tax assets | 2,761 | 2,799 | - | - |
| Total non-current assets | 523,430 | 462,388 | 167,106 | 168,621 |
| <u>Current assets</u> | | | | |
| Gross amounts due for contract work | 119,994 | 93,987 | - | - |
| Inventories | 32,497 | 33,827 | - | - |
| Financial and lease receivables | 7,818 | 3,248 | - | - |
| Trade and other receivables | 222,089 | 151,531 | 524,628 | 362,077 |
| Cash and cash equivalents | 166,735 | 90,740 | 62,860 | 18,242 |
| Assets classified as held for sale | - | 10,834 | - | - |
| Total current assets | 549,133 | 384,167 | 587,488 | 380,319 |
| <u>Current liabilities</u> | | | | |
| Trade and other payables, including derivatives | 265,772 | 268,234 | 244,742 | 118,882 |
| Loans and borrowings | 45,305 | 50,344 | 44,137 | 49,524 |
| Tax payable | 6,794 | 5,925 | - | - |
| Liabilities classified as held for sale | - | 1 | - | - |
| Total current liabilities | 317,871 | 324,504 | 288,879 | 168,406 |
| Net current assets | 231,262 | 59,663 | 298,609 | 211,913 |
| <u>Non-current liabilities</u> | | | | |
| Loans and borrowings | 355,018 | 207,892 | 297,233 | 206,170 |
| Deferred tax liabilities | 6,272 | 6,260 | - | 159 |
| Total non-current liabilities | 361,290 | 214,152 | 297,233 | 206,329 |
| Net assets | 393,402 | 307,899 | 168,482 | 174,205 |
| <u>Equity</u> | | | | |
| Share capital | 105,114 | 99,118 | 105,114 | 99,118 |
| Treasury shares | (1,292) | - | (1,292) | - |
| Capital reserve | 8,627 | 7,204 | - | - |
| Foreign currency translation reserve | 4,543 | 9,257 | - | - |
| Hedging reserve | (6,716) | (13,496) | - | - |
| Employee share option reserve | 16,780 | 12,971 | 16,780 | 12,971 |
| Retained earnings | 238,188 | 182,493 | 47,880 | 62,116 |
| Total equity attributable to equity holders of the Company | 365,244 | 297,547 | 168,482 | 174,205 |
| Minority interests | 28,158 | 10,352 | - | - |
| Total equity | 393,402 | 307,899 | 168,482 | 174,205 |
| <i>Group net borrowings (S\$)</i> | 233,588 | 167,496 | n.a. | n.a. |
| <i>Group net gearing (times)</i> | 0.59x | 0.54x | n.a. | n.a. |

NOTES TO STATEMENTS OF FINANCIAL POSITION

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

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

| 31 Dec 09 | | 31 Dec 08 | |
|--------------------|----------------------|--------------------|----------------------|
| Secured S\$'000 | Unsecured S\$'000 | Secured S\$'000 | Unsecured S\$'000 |
| 1,168 | 44,137 | 820 | 49,524 |

(ii) Amount repayable after one year

| 31 Dec 09 | | 31 Dec 08 | |
|--------------------|----------------------|--------------------|----------------------|
| Secured S\$'000 | Unsecured S\$'000 | Secured S\$'000 | Unsecured S\$'000 |
| 27 | 354,991 | 1,505 | 206,387 |

Details of any collateral

A subsidiary's bank loan is secured by a lien over its inventories and receivables and certain cash balances of the subsidiary.

1(c) CONSOLIDATED STATEMENT OF CASH FLOWS
for the financial year ended 31 December 2009

| | <u>The Group</u> | |
|---|------------------|-----------------|
| | 2009 | 2008 |
| | S\$'000 | S\$'000 |
| Cash flows from operating activities | | |
| Profit before taxation | 82,972 | 70,375 |
| Adjustments for: | | |
| Equity-settled share-based payment transactions | 3,809 | 3,552 |
| Fair value loss on derivative financial instruments | 479 | 680 |
| Net loss on sale of property, plant and equipment | 1,392 | 42 |
| Gain on sale of other investments | (44) | - |
| Share of (profit)/loss of associates, net of tax | (2,634) | 1,400 |
| Depreciation, amortisation and impairment | 16,521 | 9,718 |
| Finance costs | 9,259 | 10,222 |
| Finance income | (3,258) | (4,770) |
| Impairment of trade and other receivables | 1,845 | 3,088 |
| Impairment of investments | 2,058 | - |
| Allowance for inventory obsolescence | 863 | 366 |
| | <u>113,262</u> | <u>94,673</u> |
| Change in inventories | 2,319 | (13,543) |
| Change in gross amounts due for contract work | (26,007) | (730) |
| Change in trade and other receivables | (67,176) | (31,712) |
| Change in financial and lease receivables | 40,665 | (169,044) |
| Change in trade and other payables | 5,316 | 151,489 |
| Cash generated from operating activities | <u>68,379</u> | <u>31,133</u> |
| Income tax paid | <u>(7,773)</u> | <u>(1,276)</u> |
| Net cash from operating activities | <u>60,606</u> | <u>29,857</u> |
| Cash flows from investing activities | | |
| Acquisition of property, plant and equipment | (8,594) | (18,792) |
| Acquisition of intangible assets | (29,669) | (30,006) |
| Proceeds from sale of property, plant and equipment | 364 | 791 |
| Proceeds from sale of other investments | 853 | - |
| Acquisition of subsidiaries, net of cash acquired [Note 1(c)(i)] | (19,965) | - |
| Acquisition of associates | (27,626) | (5,869) |
| Change in amounts due from related parties (non- trade) | (12,393) | (45,199) |
| Dividends received from associates | 1,260 | 2,451 |
| Interest received | 2,912 | 4,770 |
| Net cash used in investing activities | <u>(92,858)</u> | <u>(91,854)</u> |

1(c) CONSOLIDATED STATEMENT OF CASH FLOWS
for the financial year ended 31 December 2009 (cont'd)

| | <u>The Group</u> | |
|---|-----------------------|----------------------|
| | 2009 | 2008 |
| | S\$'000 | S\$'000 |
| Cash flows from financing activities | | |
| Proceeds from exercise of share options | 5,996 | 3,298 |
| Purchase of treasury shares | (1,292) | - |
| Proceeds from borrowings | 425,698 | 100,510 |
| Repayment of borrowings | (291,003) | (49,825) |
| Repayment of finance lease liabilities | (99) | (119) |
| Interest paid | (8,689) | (12,100) |
| Dividends paid to equity holders of the Company | (18,020) | (9,909) |
| Dividends paid to minority interests of subsidiaries | - | (609) |
| | <u>112,591</u> | <u>31,246</u> |
| Cash flows from financing activities | | |
| Net increase/(decrease) in cash and cash equivalents | 80,339 | (30,751) |
| Cash and cash equivalents at beginning of the year | 91,480 | 121,047 |
| Effect of exchange rate changes | (5,084) | 1,184 |
| Cash and cash equivalents at end of the year [Note 1(c)(ii)] | <u>166,735</u> | <u>91,480</u> |

NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

1(c)(i) The values of assets and liabilities of subsidiaries acquired were as follows:

| | <u>The Group</u> | |
|--|----------------------|-----------------|
| | 2009 | 2008 |
| | S\$'000 | S\$'000 |
| Current assets | 6,452 | - |
| Non-current assets | 90,642 | - |
| Current liabilities | (14,319) | - |
| Non-current liabilities | (35,114) | - |
| Net identifiable assets and liabilities | 47,661 | - |
| Minority interest | (18,954) | - |
| Goodwill on acquisition | 7,667 | - |
| Amount previously accounted for as investments in associates | (15,102) | - |
| Cash consideration paid, satisfied in cash | 21,272 | - |
| Cash acquired | (1,307) | - |
| Net cash outflow | <u>19,965</u> | <u>-</u> |

1(c)(ii) Cash and cash equivalents at end of year:

| | The Group | |
|--|------------------|----------------|
| | 2009 | 2008 |
| | S\$'000 | S\$'000 |
| Cash at bank and in hand | 98,861 | 63,201 |
| Fixed deposits with financial institutions | 67,874 | 27,539 |
| | 166,735 | 90,740 |
| Cash and fixed deposits of disposal group | - | 740 |
| Cash and cash equivalents as per statement of cash flows | 166,735 | 91,480 |

1 (d)(i) STATEMENT OF CHANGES IN EQUITY OF THE GROUP

| | Share capital S\$'000 | Treasury shares S\$'000 | Capital reserve S\$'000 | Foreign currency translation reserve S\$'000 | Hedging reserve S\$'000 | Employee share option reserve S\$'000 | Retained earnings S\$'000 | Total attributable to equity holders of the Company S\$'000 | Minority interests S\$'000 | Total equity S\$'000 |
|--|--------------------------|----------------------------|----------------------------|---|----------------------------|--|------------------------------|--|-------------------------------|-------------------------|
| At 1.1.2009 | 99,118 | - | 7,204 | 9,257 | (13,496) | 12,971 | 182,493 | 297,547 | 10,352 | 307,899 |
| Total comprehensive income for the year | | | | | | | | | | |
| Profit or loss | - | - | - | - | - | - | 75,036 | 75,036 | (745) | 74,291 |
| Other comprehensive income | | | | | | | | | | |
| Foreign currency translation differences | - | - | - | (4,714) | - | - | - | (4,714) | (403) | (5,117) |
| Net change in fair value of cash flow hedges | - | - | - | - | 67 | - | - | 67 | - | 67 |
| Net change in fair value of cash flow hedges transferred to profit or loss | - | - | - | - | 6,069 | - | - | 6,069 | - | 6,069 |
| Share of net fair value gain on derivative financial instruments of associates | - | - | - | - | 644 | - | - | 644 | - | 644 |
| Share of statutory reserve of associates | - | - | 102 | - | - | - | - | 102 | - | 102 |
| Total comprehensive income for the year | - | - | 102 | (4,714) | 6,780 | - | 75,036 | 77,204 | (1,148) | 76,056 |
| Transactions with owners, recorded directly in equity | | | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | | | |
| Issue of shares for cash under Employee Share Option Scheme | 5,996 | - | - | - | - | - | - | 5,996 | - | 5,996 |
| Purchase of treasury shares | - | (1,292) | - | - | - | - | - | (1,292) | - | (1,292) |
| Value of employee services received for issue of share option | - | - | - | - | - | 3,809 | - | 3,809 | - | 3,809 |
| Transfer to capital reserve | - | - | 1,321 | - | - | - | (1,321) | - | - | - |
| Dividends to equity holders | - | - | - | - | - | - | (18,020) | (18,020) | - | (18,020) |
| Acquisition of minority interests | - | - | - | - | - | - | - | - | 18,954 | 18,954 |
| Total transactions with owners | 5,996 | (1,292) | 1,321 | - | - | 3,809 | (19,341) | (9,507) | 18,954 | 9,447 |
| At 31.12.2009 | 105,114 | (1,292) | 8,627 | 4,543 | (6,716) | 16,780 | 238,188 | 365,244 | 28,158 | 393,402 |

1 (d)(i) STATEMENT OF CHANGES IN EQUITY OF THE GROUP (cont'd)

| | Share capital | Treasury shares | Capital reserve | Foreign currency translation reserve | Hedging reserve | Employee share option reserve | Retained earnings | Total attributable to equity holders of the Company | Minority interests | Total equity |
|--|---------------|-----------------|-----------------|--------------------------------------|-----------------|-------------------------------|-------------------|---|--------------------|----------------|
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| At 1.1.2008 | 95,820 | - | 1,064 | (1,815) | (4,222) | 9,419 | 139,506 | 239,772 | 7,295 | 247,067 |
| Total comprehensive income for the year | | | | | | | | | | |
| Profit or loss | - | - | - | - | - | - | 59,036 | 59,036 | 3,182 | 62,218 |
| Other comprehensive income | | | | | | | | | | |
| Foreign currency translation differences | - | - | - | 11,072 | - | - | - | 11,072 | 484 | 11,556 |
| Net change in fair value of cash flow hedges | - | - | - | - | (9,885) | - | - | (9,885) | - | (9,885) |
| Net change in fair value of cash flow hedges transferred to profit or loss | - | - | - | - | 1,017 | - | - | 1,017 | - | 1,017 |
| Share of net fair value loss on derivative financial instruments of associates | - | - | - | - | (406) | - | - | (406) | - | (406) |
| Total comprehensive income for the year | - | - | - | 11,072 | (9,274) | - | 59,036 | 60,834 | 3,666 | 64,500 |
| Transactions with owners, recorded directly in equity | | | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | | | |
| Issue of shares for cash under Employee Share Option Scheme | 3,298 | - | - | - | - | - | - | 3,298 | - | 3,298 |
| Value of employee services received for issue of share option | - | - | - | - | - | 3,552 | - | 3,552 | - | 3,552 |
| Transfer to capital reserve | - | - | 6,140 | - | - | - | (6,140) | - | - | - |
| Dividends to equity holders | - | - | - | - | - | - | (9,909) | (9,909) | - | (9,909) |
| Dividends to minority shareholders | - | - | - | - | - | - | - | - | (609) | (609) |
| Total transactions with owners | 3,298 | - | 6,140 | - | - | 3,552 | (16,049) | (3,059) | (609) | (3,668) |
| At 31.12.2008 | 99,118 | - | 7,204 | 9,257 | (13,496) | 12,971 | 182,493 | 297,547 | 10,352 | 307,899 |

1 (d)(i) STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

| | Share capital | Treasury shares | Employee share option reserve | Retained earnings | Total attributable to equity holders of the Company |
|---|----------------|-----------------|-------------------------------|-------------------|---|
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| At 1.1.2009 | 99,118 | - | 12,971 | 62,116 | 174,205 |
| Profit or loss | - | - | - | 3,784 | 3,784 |
| Total comprehensive income for the year | - | - | - | 3,784 | 3,784 |
| Transactions with owners, recorded directly in equity | | | | | |
| Contributions by and distributions to owners | | | | | |
| Issue of shares for cash under Employee Share Option Scheme | 5,996 | - | - | - | 5,996 |
| Purchase of treasury shares | - | (1,292) | - | - | (1,292) |
| Value of employee services received for issue of share option | - | - | 3,809 | - | 3,809 |
| Dividends to equity holders | - | - | - | (18,020) | (18,020) |
| Total transactions with owners | 5,996 | (1,292) | 3,809 | (18,020) | (9,507) |
| At 31.12.2009 | 105,114 | (1,292) | 16,780 | 47,880 | 168,482 |
| At 1.1.2008 | 95,820 | - | 9,419 | 51,205 | 156,444 |
| Profit or loss | - | - | - | 20,820 | 20,820 |
| Total comprehensive income for the year | - | - | - | 20,820 | 20,820 |
| Transactions with owners, recorded directly in equity | | | | | |
| Contributions by and distributions to owners | | | | | |
| Issue of shares for cash under Employee Share Option Scheme | 3,298 | - | - | - | 3,298 |
| Value of employee services received for issue of share option | - | - | 3,552 | - | 3,552 |
| Dividends to equity holders | - | - | - | (9,909) | (9,909) |
| Total transactions with owners | 3,298 | - | 3,552 | (9,909) | (3,059) |
| At 31.12.2008 | 99,118 | - | 12,971 | 62,116 | 174,205 |

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 financial year ended 31 Dec 2009, 3,594,000 (31 Dec 2008: 1,891,000) new ordinary shares were issued pursuant to options exercised under the Hyflux Employee Shares Option Scheme ("Scheme") and the Warrant Subscription Agreements ("Agreements").
- For the financial year ended 31 Dec 2009, 2,090,000 (31 Dec 2008: 10,605,000) share options were granted under the Scheme.
- During the financial year ended 31 Dec 2009, the Company acquired 500,000 (31 Dec 2008: Nil) of its shares by way of market acquisition.
- As at 31 Dec 2009, the number of outstanding and unexercised options granted under the Scheme was 25,279,093 (31 Dec 2008: 28,746,655).
- As at 31 Dec 2009, the number of outstanding and unexercised warrants granted under the Agreements was 40,216,863 (31 Dec 2008: 41,216,863). 1,000,000 warrants were exercised under the Agreements during the financial year ended 31 Dec 2009.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

The total number of shares held as treasury shares as at 31 Dec 2009 was 500,000 (31 Dec 2008: Nil).

The total number of issued shares excluding treasury shares as at 31 Dec 2009 was 528,365,360 (31 Dec 2008: 525,271,360).

1(d)(iv) A statement showing all sales, transfer, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

There were no sales, transfer, disposal, cancellation and/or use of treasury shares for the financial period ended 31 Dec 2009.

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

Except as disclosed in paragraph 5 below, 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.

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

The Group and the Company adopted the new/revised FRS and Interpretations of FRS ("INT FRS") that are effective for annual periods beginning on or after 1 January 2009. Changes to the Group's and the Company'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 which are relevant to the Group and the Company:

| | |
|---------------------------|--|
| FRS 1 (Revised) | Presentation of Financial Statements |
| Amendments to FRS 23 | Borrowing Costs |
| Amendments to FRS102 | Share-based Payment - Vesting Conditions and Cancellations |
| FRS 108 | Operating Segments |
| Improvements to FRSs 2008 | |

The adoption of the above FRS did not result in any substantial change to the Group's and the Company's accounting policies or any significant impact on the financial statements.

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:

| | 2009 | 2008 |
|---|--------------|--------------|
| | Cents | Cents |
| Based on the weighted average of 526,172,527 (31 Dec 2008: 524,751,860) ordinary shares in issue; and | 14.26 | 11.25 |
| On a fully diluted basis of 535,474,937 (31 Dec 2008: 537,404,657) ordinary shares | <u>14.01</u> | <u>10.99</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.

| | 2009 | 2008 |
|---|--------------|--------------|
| | Cents | Cents |
| Net assets value per ordinary share of: | | |
| <i>Based on 528,365,360 (31 Dec 2008: 525,271,360) ordinary shares in issue</i> | | |
| Group | 69.1 | 56.7 |
| Company | <u>31.9</u> | <u>33.2</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

The Group achieved a revenue of \$524.8 million and a record profit attributable to shareholders of the Company of \$75.0 million for the financial year ended 31 Dec 2009.

8(a)(iv) Revenue

The Group's revenue for the financial year ended 31 Dec 2009 decreased by 5% to \$524.8 million as compared to \$554.2 million for the financial year ended 31 Dec 2008. Revenue for the financial year ended 31 Dec 2009 was lower mainly due to lower Engineering Procurement and Construction ("EPC") revenue from fewer projects being carried out in China's municipal and industrial sectors due to impact from global economic downturn and credit crunch compared to the financial year ended 31 Dec 2008.

Sector Review

Revenue from the municipal sector decreased marginally by 3% from \$482.3 million for the financial year ended 31 Dec 2008 to \$469.8 million for financial year ended 31 Dec 2009 and contributed 90% to the Group's revenue. The decline is primarily due to slow down in China market. Municipal sector revenue from China and Middle East and North Africa ("MENA") for the financial year ended 31 Dec 2009 was \$130.3 million and \$329.8 million respectively.

Revenue from industrial sector decreased by 16% from \$60.7 million for the financial year ended 31 Dec 2008 to \$51.2 million for the financial year ended 31 Dec 2009. This was mainly attributed to the economic slow down in China's industrial sector and timing of order delivery.

Geographical review

China accounted for 35% of the total revenue, while MENA contributed approximately 63% of the total revenue for the financial year ended 31 Dec 2009.

8(a)(v) Costs and expenses

Raw materials and consumables used and subcontractors' costs decreased by 20% from \$387.8 million for the financial year ended 31 Dec 2008 to \$309.4 million for the financial year ended 31 Dec 2009 due to cost management measures and lower sales volume.

Staff costs increased from \$52.6 million for the financial year ended 31 Dec 2008 to \$59.4 million for the financial year ended 31 Dec 2009 in preparation for the execution of the world's largest seawater desalination plant and new staff for operation and maintenance for newly completed plants.

Finance costs decreased from \$10.2 million for the financial year ended 31 Dec 2008 to \$9.3 million for the financial year ended 31 Dec 2009 due to lower interest rates on bank borrowings.

Other expenses increased from \$31.1 million for the financial year ended 31 Dec 2008 to \$57.9 million for financial year ended 31 Dec 2009 due to higher projects tender fees, bank charges, selling expenses, foreign exchange differences and impairment allowance on inventory obsolescence, trade and other receivables made during the financial year.

The effective tax rate for the financial year ended 31 Dec 2009 was reduced to about 10% and remained at a level lower than the Singapore corporate tax rate mainly due to the tax exemptions and incentives enjoyed by certain entities in the Group.

8(a)(vi) Earnings

Basic and fully diluted earnings per share for the financial year ended 31 Dec 2009 increased by 27% to a record values of 14.26 cents and 14.01 cents respectively compared to the financial year ended 31 Dec 2008.

8(b) Balance Sheets Analysis

8(b)(i) The Group

The Group's shareholders' equity increased to a record \$365.2 million as at 31 Dec 2009 from \$297.5 million as at 31 Dec 2008. The increase was mainly attributable to the net profit for the financial year ended 31 Dec 2009.

Current assets increased to \$549.1 million as at 31 Dec 2009 from \$384.2 million as at 31 Dec 2008, which was mainly due to higher trade-related receivables and cash and fixed deposits.

Non-current assets increased to \$523.4 million as at 31 Dec 2009 from \$462.4 million as at 31 Dec 2008. Property, plant and equipment and intangible assets increased by \$78.1 million and \$23.1 million respectively, mainly due to the acquisition of subsidiaries during the financial year. In addition, investments in associates increased due to additional capital injection to associates and share of results of associates. The increase was partially offset by the decrease in financial and lease receivables of \$38.3 million due to sale of water treatment plants during the financial year.

Current liabilities decreased to \$317.9 million as at 31 Dec 2009 from \$324.5 million as at 31 Dec 2008, mainly due to the decreases in trade-related payables and short-term bank borrowings during the financial year.

Non-current liabilities increased to \$361.3 million as at 31 Dec 2009 from \$214.2 million as at 31 Dec 2008, resulting mainly from the increase in bank borrowings during the financial year to support the Group's expansion and investment activities. Included in the financial liabilities as at 31 Dec 2009 was \$148.0 million of fixed rate unsecured notes ("Notes") issued under the Group's Multicurrency Debt Issuance Programme. The Notes will mature in 2012 and 2014.

The Group's net gearing ratio as at 31 Dec 2009 remained at a stable level of 0.6 times.

8(b)(ii) The Company

Shareholders' equity for the Company decreased to \$168.5 million as at 31 Dec 2009 from \$174.2 million as at 31 Dec 2008. The decrease was mainly due to the dividend payment of \$18.0 million during the second quarter ended 30 Jun 2009.

8(c) Statement of Cash flows

The Group's cash position increased to \$166.7 million as at 31 Dec 2009 from \$90.7 million as at 31 Dec 2008.

For the financial year ended 31 Dec 2009, the Group generated cash of \$60.6 million from its operations, mainly due to the increase in operating profits for the financial year. Cash used in investing activities for the financial year was largely for capital expenditure of property, plant and equipment and intangible assets to support the Group's expansion and investments in subsidiaries and associates. Cash from financing activities for the financial year ended 31 Dec 2009 was mainly arose from proceeds from borrowings to fund the Group's investments.

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 Group performed well in 2009 despite volatility in the global economy. The Group remains cautious and mindful of the inherent risks.

The fundamentals and outlook of the water industry remain sound. The municipal sector is expected to be the largest revenue and profit contributor to the Group. The Group's EPC projects in MENA and China are progressing within expectations. The Group remains confident of the steady and recurring income stream from its Operation and Maintenance ("O&M") unit.

The recent credit tightening in China may affect the Group's municipal business.

The Group will continue to broaden its technology base and manufacturing capabilities to innovative solutions to meet the varying needs of its customers. The Group will continue to be diligent and prudent in its project execution and management.

The Group's O&M order book has grown to \$1.1 billion as at 31 Dec 2009 from \$335 million as at 31 Dec 2008. The rise in the Group's O&M order book is due to the increase in the Group's completed municipal plants. The Group's EPC order book remains healthy at \$748 million as at 31 Dec 2009. The combined order book has increased by 20% from \$1.5 billion as at 31 Dec 2008 to \$1.8 billion as at 31 Dec 2009.

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 | 5.00 cents per ordinary share |
| 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 | 3.43 cents per ordinary share |
| 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

Information about reportable segments

| | Municipal \$'000 | | Industrial \$'000 | | All other segments \$'000 | | Total \$'000 | |
|--|---------------------|---------|----------------------|---------|------------------------------|---------|-----------------|---------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| External revenue | 469,832 | 482,306 | 51,222 | 60,668 | 3,760 | 11,250 | 524,814 | 554,224 |
| Depreciation, amortisation and impairment | (4,342) | (3,432) | (1,550) | (1,151) | (5,451) | (2,522) | (11,343) | (7,105) |
| Reportable segment profit/(loss) before taxation | 103,753 | 81,466 | 1,120 | 2,803 | (13,236) | (2,040) | 91,637 | 82,229 |
| Share of profit/(loss) of associates, net of tax | 3,262 | 180 | (236) | (62) | (392) | (1,518) | 2,634 | (1,400) |
| Reportable segment assets | 595,778 | 493,614 | 193,465 | 139,713 | 63,436 | 53,853 | 852,679 | 687,180 |
| Investments in associates | 93,645 | 70,901 | 4,911 | 15,050 | 4,098 | 8,765 | 102,654 | 94,716 |
| Capital expenditure | 3,635 | 5,988 | 74,548 | 2,012 | 12,970 | 9,122 | 91,153 | 17,122 |
| Reportable segment liabilities | 280,163 | 227,733 | 36,313 | 27,585 | 9,171 | 16,626 | 325,647 | 271,944 |

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

| | 2009 \$'000 | 2008 \$'000 |
|--|------------------|----------------|
| Revenues | | |
| Total revenue for reportable segments | 521,054 | 542,974 |
| Other revenue | 3,760 | 11,250 |
| Consolidated revenue | <u>524,814</u> | <u>554,224</u> |
| Profit or loss | | |
| Total profit or loss for reportable segments | 104,873 | 84,269 |
| Other profit or loss | (13,236) | (2,040) |
| | <u>91,637</u> | <u>82,229</u> |
| Unallocated amounts: | | |
| - Other corporate expenses | (11,299) | (10,454) |
| Share of profit/(loss) of associates, net of tax | 2,634 | (1,400) |
| Consolidated profit before taxation | <u>82,972</u> | <u>70,375</u> |
| Assets | | |
| Total assets for reportable segments | 789,243 | 633,327 |
| Other assets | 63,436 | 53,853 |
| Investments in associates | 102,654 | 94,716 |
| Other unallocated amounts | 117,230 | 64,659 |
| Consolidated total assets | <u>1,072,563</u> | <u>846,555</u> |
| Liabilities | | |
| Total liabilities for reportable segments | 316,476 | 255,318 |
| Other liabilities | 9,171 | 16,626 |
| Other unallocated amounts | 353,514 | 266,712 |
| Consolidated total liabilities | <u>679,161</u> | <u>538,656</u> |

Other material items in 2009

| | Reportable segment totals \$'000 | Adjustments \$'000 | Consolidated totals \$'000 |
|---|--|-----------------------|----------------------------------|
| Capital expenditure | 78,183 | 31,286 | 109,469 |
| Depreciation, amortisation and impairment | 5,892 | 10,629 | 16,521 |

Other material items in 2008

| | Reportable segment totals | Adjustments | Consolidated totals |
|---|------------------------------|-------------|------------------------|
| | \$'000 | \$'000 | \$'000 |
| Capital expenditure | 8,000 | 20,301 | 28,301 |
| Depreciation, amortisation and impairment | 4,583 | 5,135 | 9,718 |

Geographical information

31 December 2009

| | Revenues \$'000 | Non-current assets \$'000 |
|------------------------------|--------------------|---------------------------------|
| Middle East and North Africa | 330,523 | 62,404 |
| People's Republic of China | 181,327 | 382,308 |
| Singapore and others | 12,964 | 78,718 |
| | <u>524,814</u> | <u>523,430</u> |

31 December 2008

| | Revenues \$'000 | Non-current assets \$'000 |
|------------------------------|--------------------|---------------------------------|
| Middle East and North Africa | 223,039 | 13,106 |
| People's Republic of China | 314,734 | 370,684 |
| Singapore and others | 16,451 | 78,598 |
| | <u>554,224</u> | <u>462,388</u> |

14. Breakdown of sales

| | 2009 S\$'000 | 2008 S\$'000 | % increase/ (decrease) |
|---|-----------------|-----------------|---------------------------|
| Sales reported for the first half year | 222,667 | 197,652 | 13 |
| Profit after tax before minority interest reported for the first half year | <u>31,577</u> | <u>30,586</u> | 3 |
| Sales reported for the second half year | 302,147 | 356,572 | (15) |
| Profit after tax before minority interest reported for the second half year | <u>42,714</u> | <u>31,632</u> | 35 |

15. Breakdown of total annual dividend (In dollar value)

| | Latest Full Year (2009) S\$'000 | Previous Full Year (2008) S\$'000 |
|------------|--|--|
| Ordinary | 18,020 | 9,909 |
| Preference | - | - |
| Total | <u>18,020</u> | <u>9,909</u> |

BY ORDER OF THE BOARD

Lim Poh Fong
Company Secretary
24 February 2010