



HYFLUX LTD

Company Registration No: 200002722Z

SALE AND PARTIAL LEASEBACK OF PROPERTY AND EQUIPMENT LOCATED AT 8 TUAS SOUTH LANE

SALE AND PARTIAL LEASEBACK OF PROPERTY AND EQUIPMENT

Hyflux Ltd (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that Hyflux Membrane Manufacturing (S) Pte Ltd (“**HMM**”), a wholly-owned subsidiary of the Company, has today entered into an Option Agreement (the “**OA**”) with RBC Investor Services Trust Singapore Limited (the “**Purchaser**”) in its capacity as trustee of ESR Real Estate Investment Trust (“**ESR-REIT**”) to grant to the Purchaser the right (“**Call Option**”), subject to the terms and conditions of the OA, to require HMM to sell the leasehold interest in respect of the land and buildings located at 8 Tuas South Lane, Singapore 637302 (“**Property**”) together with the mechanical and electrical equipment (“**Equipment**”) relating to the Property, free from all encumbrances on Completion (as defined below).

Upon the exercise of the Call Option in accordance with the OA, a binding contract between HMM and the Purchaser for the sale and purchase (“**Disposal**”) of the leasehold interest in respect of the Property together with the Equipment shall be deemed to have been constituted and upon completion of the Disposal (“**Completion**”), the Purchaser shall grant to HMM and Hydrochem (S) Pte Ltd, also a wholly-owned subsidiary of the Company, a partial leaseback (the “**Leaseback**”) of the Property for a lease term of 15 years. The Disposal and the Leaseback are to be referred to collectively as the “**Transaction**”.

INFORMATION ON THE PROPERTY

The Property, with a land area of 77,175 square metres, was leased by the Group from Jurong Town Corporation (“**JTC**”) under a tenure for an initial term of 30 years with effect from 1 April 2008 with an option for an extension. Based on the Group’s calculation and subject to the fulfillment of certain criteria, any extension beyond the initial term of 30 years is expected to be up to between 15 years to 16 years.

The Property is presently being used by the Group as its factory for the production of membranes and steel structures, a warehouse facility, as well as a dormitory for its workers. In light of the Leaseback, in the immediate future, following Completion, the Group would be able to carry out these business activities at the Property.



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INFORMATION ON THE PURCHASER

ESR-REIT is an industrial real estate investment trust, publicly listed on the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) since 25 July 2006.

ESR-REIT invests in quality income-producing industrial properties and has a diversified portfolio of 48 properties located across Singapore, with a total gross floor area of approximately 8.2 million sq ft and a property value of S\$1.33 billion as at 30 September 2017. The properties are in the following business sectors: Logistics/Warehouse, Hi-Specs Industrial, Light Industrial, General Industrial and Business Parks, and are located close to major transportation hubs and key industrial zones island-wide.

CONSIDERATION AND TERMS OF PAYMENT

The consideration for the Disposal is S\$95,000,000 (the “**Consideration**”). The Purchaser has paid a deposit amounting to 10% of the Consideration in cash. The balance of the Consideration shall be paid upon Completion in cash.

The Consideration and the terms of the Transaction were negotiated and agreed on a willing-buyer, willing-seller basis, after taking into consideration current market conditions and the prevailing transacted prices in the vicinity of the Property.

CONDITIONS PRECEDENT

Completion of the Transaction is conditional upon, *inter alia*, the following:

- (i) the grant of the Call Option by HMM to the Purchaser, which is in turn conditional upon, *inter alia*, approval of JTC and of other relevant authorities to the issuance of the agreement for lease or lease of the Property, confirmation from JTC that the requisite fixed investment criteria for the grant of the further lease term of between 15 to 16 years upon expiry of the initial lease term of 30 years has been fulfilled and JTC will grant the said further lease term, as well as either the approval of the shareholders of the Company (“**Shareholders**”) in an extraordinary general meeting (“**EGM**”) to be convened or a waiver from the SGX-ST to convene an EGM in respect of the Disposal; and
- (ii) the exercise of the Call Option by the Purchaser.



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RATIONALE FOR THE DISPOSAL AND USE OF PROCEEDS

The Transaction would be in the commercial interests of the Company as it would free up capital for the Group to undertake new businesses and projects which would have a positive impact on the financials of the Group with no disruption to the business of the Group that is currently being conducted on the Property.

The proceeds from the Disposal are intended to be used for general working capital and/or strategic purposes.

FINANCIAL EFFECTS ON THE DISPOSAL

The pro-forma financial effects of the Disposal on the Net Tangible Assets (“NTA”) per share and Earnings Per Share of the Group are as set out below. The financial effects have been prepared based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2016 (“FY2016”) and are prepared purely for illustrative purposes and therefore do not reflect the actual financial position of the Group after completion of the Disposal.

	Before the Disposal	After the Disposal
NTA per share (cents) ⁽ⁱ⁾	56.21	61.88
Earnings per share (cents) ⁽ⁱⁱ⁾	(7.51)	(1.84)

Notes:

- (i) Assuming the Disposal had been effected on 31 December 2016 (being the end of FY2016).
- (ii) Assuming the Disposal had been effected on 1 January 2016 (being the beginning of FY2016).

OTHER FINANCIAL INFORMATION

Based on the latest announced consolidated financial statements of the Group for the Second Quarter Ended 30 June 2017, the book value of the Property amounted to approximately S\$55.3 million.

The Company commissioned a valuation of the Property, and from the valuation report obtained, the value of the Property as at 2 October 2017, based on a capitalisation approach and a discounted cashflow analysis adopted by the valuer, was between S\$93 million to S\$96 million.

The excess of the proceeds over the book value of the Property will amount to approximately S\$39.7 million. After deducting estimated expenses in connection with the Disposal of approximately S\$100,000, there will be a net gain on the Disposal of approximately S\$39.6 million.



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REQUIREMENTS UNDER CHAPTER 10 OF THE LISTING MANUAL

The relative figures for the Disposal using the applicable bases of comparison under Rule 1006 of the Listing Manual based on the unaudited consolidated accounts of the Company for the period ended 30 June 2017 are as follows:

Rule 1006(a)	Net asset value of the assets to be disposed of, compared with the Group's net asset value	4.9%
Rule 1006(b)	Net profits attributable to the assets acquired or disposed of, compared with the Group's net profits	-13.7%
Rule 1006(c)	Aggregate value of the consideration given or received, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares	24.7%
Rule 1006(d)	Number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not Applicable
Rule 1006(e)	Aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and provable reserves	Not Applicable

As the relative figure computed under Rule 1006(c) of the Listing Manual exceeds 20%, the Disposal constitutes a major transaction under Chapter 10 of the Listing Manual and is subject to the approval of the Shareholders in an EGM to be convened, unless waived or exempted by the SGX-ST.

APPLICATION FOR WAIVER OF RULE 1014

The Company had submitted a written application to the SGX-ST to seek a waiver (the "Waiver") from the requirement to convene an EGM to seek Shareholders' prior approval under Rule 1014(2) of the Listing Manual in connection with the Disposal.

In its letter dated 13 October 2017, the SGX-ST informed the Company that based on the Company's submissions and representations to the SGX-ST, it has no objection to the Company's application for Waiver, subject to the following:

- (a) the Company announcing the Waiver granted, the reasons for seeking the Waiver and the conditions as required under Rule 107 of the Listing Manual; and



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- (b) submission of a written confirmation from the Company that the Waiver does not contravene any laws and regulations governing the Company and the articles of association of the Company (the “**Confirmation**”).

The Waiver was sought to facilitate the Disposal. It was submitted that there will be no material change in the risk profile of the Company arising from the Transaction, and that the Property is a non-core asset of the Group, for the following reasons:

- (i) The terms of the Disposal would include the Leaseback. With the Leaseback for approximately 15 years, in the immediate future, following the completion of the Disposal, the Group would be able to continue to carry out its business activities as are currently conducted at the Property. In light of the Leaseback, and that the Leaseback is for a substantial period of 15 years, the Disposal would have no material impact on the business of the Group currently being conducted at the Property;
- (ii) Upon the expiry of the Leaseback term of 15 years, the option is always available to the Group to negotiate an extension of the Leaseback term. Further, the Property is similar to other industrial premises and consequently before the expiry of the Leaseback term, the Group will be in a position to consider the option of continuing the business activities currently being conducted at the Property, at other industrial premise(s);
- (iii) The Property is presently being used by the Group as its factory for the production of membranes and steel structures, a warehouse facility, as well as a dormitory for its workers. The majority of the membranes and steel structures currently being produced at the Property are for the use at plants constructed or operated by the Group. However, not all of the plants constructed or operated by the Group use such membranes and/or steel structures, and furthermore, there are other sources of membranes and/or steel structures available to the Group;
- (iv) The Property is not the only property that is used by the Group. The Group’s corporate headquarters and research facilities are located at 80 Bendemeer Road, Hyflux Innovation Centre, Singapore 339949. The Group also has another manufacturing facility for other business activities at 202 Kallang Bahru, Singapore 339339; and
- (v) The Property is not currently being used as security for financing.

Pursuant to the condition for the Waiver as set out in paragraph (b) above, the Company has submitted the Confirmation to SGX-ST.

As the SGX-ST has granted the Waiver to the Company, the Company will not be convening an EGM to seek Shareholders’ approval for the Disposal and accordingly, will not be despatching a circular to Shareholders in relation thereto.



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INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the directors and controlling shareholders of the Company has any interest, direct or indirect, in the Transaction. No person is proposed to be appointed as a director of the Company in connection with the Transaction.

DIRECTORS' SERVICE CONTRACTS

No person is proposing to be appointed as a director of the Company in connection with the Transaction. Accordingly, no service contract is proposed to be entered into between the Company and any such person.

INSPECTION OF DOCUMENTS

A copy of the OA is available for inspection during normal business hours at the registered office of the Company located at 80 Bendemeer Road, Hyflux Innovation Centre, Singapore 339949 for a period of 3 months from the date of this announcement.

By Order of the Board

Lim Poh Fong
Company Secretary
17 October 2017