



HYFLUX LTD

Company Registration No.: 200002722Z

(Incorporated in the Republic of Singapore)

UPDATES ON REORGANISATION PROCESS – RESTRUCTURING AGREEMENT

The purpose of this announcement is for Hyflux Ltd (the “**Company**”) to provide an update on the reorganisation process, address the concerns raised in a letter from SIAS dated 25 March 2019 (“**25 March SIAS Letter**”) (which can be accessed at <https://www.hyflux.com/wp-content/uploads/2019/03/250319-Letter-to-Hyflux-Board.pdf>) and reiterate the Company’s continuing intention to proceed with the scheme meetings on 5 April 2019 and 8 April 2019 as scheduled.

In particular, as will be elaborated below, the Company would like to highlight that:

- (a) While certain disagreements have recently emerged between the Company and SM Investments Pte Ltd (“**Investor**”), and the Company has tried but has been unable to meaningfully engage with the Investor, the restructuring agreement entered into between the Company and the Investor dated 18 October 2018 (“**Restructuring Agreement**”) remains in force and the Investor has not stated that it will resile from its proposed investment.
- (b) The Company will, pursuant to its contractual obligations, use reasonable endeavours to ensure the satisfaction of the necessary conditions under the Restructuring Agreement for the investment to proceed, and will proceed to hold: (i) the scheme meetings on 5 April 2019 (for the scheme of arrangement proposed by the Company (“**Hyflux Scheme**”)) and 8 April 2019 (for the schemes of arrangement proposed by Hydrochem (S) Pte Ltd, Hyflux Engineering Pte Ltd and Hyflux Membrane Manufacturing (S) Pte Ltd (“**Other Schemes**”)); and (ii) an extraordinary general meeting of the Company (“**EGM**”) to approve the terms of the investment under the Restructuring Agreement on 15 April 2019.

For this purpose, the Company refers to:

- (a) its announcement dated 18 October 2018 in relation to the execution of the Restructuring Agreement;
- (b) its announcement dated 22 February 2019 (“**22 Feb Announcement**”) in relation to its notice to convene court ordered meetings of parties in respect of the financial obligations of the Company, Hydrochem (S) Pte Ltd, Hyflux Engineering Pte Ltd and Hyflux Membrane Manufacturing (S) Pte Ltd to vote on the Hyflux Scheme and the Other Schemes (collectively, the “**Schemes**”);
- (c) its announcement dated 5 March 2019 in relation to: (i) the receipt by Tuaspring Pte Ltd (“**Tuaspring**”) of a notice from the Public Utilities Board (“**PUB**”) dated 5 March 2019 (“**PUB Notice**”) asserting certain defaults by Tuaspring under the Water Purchase Agreement entered into between PUB and Tuaspring dated 6 April 2011 (as amended and/or restated from time to time) (the “**WPA**”) and requesting Tuaspring to remedy such defaults by 5 April 2019; and (ii) the press release also dated 5 March 2019 from the PUB in relation to the PUB Notice (“**PUB Press Release**”).

- (d) its announcement dated 8 March 2019 ("**8 March Announcement**") in relation to amendments to be made to the scheme of arrangement proposed by the Company (the "**Hyflux Scheme**") to accommodate the concerns expressed in a letter from the Securities Investors Association (Singapore) ("**SIAS**") dated 27 February 2019 ("**27 February SIAS Letter**");
- (e) its announcements dated 27 February 2019 and 11 March 2019 in relation to a third town hall meeting for holders of Notes, Perpetual Securities and Preference Shares (as defined in the 22 Feb Announcement);
- (f) its announcement dated 18 March 2019 ("**18 March Announcement**") in relation to the Company's receipt of a notice from the Investor dated 18 March 2019 ("**1st Investor Notice**"): (i) asserting that the PUB Notice together with certain statements made by the PUB in the PUB Press Release constitute a Prescribed Occurrence as defined in the Restructuring Agreement; and (ii) requesting that the Company remedy the asserted Prescribed Occurrence within two (2) weeks of the notice (ie, by 1 April 2019); and
- (g) its announcement dated 21 March 2019 ("**21 March Announcement**") in relation to clarifications sought by the Company from PUB and PUB's clarifications that in the event the PUB elects to terminate the WPA (on the basis that Tuaspring has been unable to remedy the defaults asserted in the PUB Notice by 5 April 2019), PUB will: (i) elect to purchase only the Desalination Plant (as defined in the 21 March Announcement); and (ii) not claim the compensation sum likely to be payable by Tuaspring to PUB under the WPA in the event that PUB purchases the Desalination Plant.

Following the Company's 21 March Announcement, there have been further developments in respect of the reorganisation process:

- (a) following without prejudice communications between the Company and the Investor, the Investor has indicated that they will not agree to a variation of the terms of the Restructuring Agreement, whether to accommodate a termination of the WPA in the manner clarified by the PUB (as set out in (g) above), or otherwise;
- (b) the Company has received a letter from the PUB dated 25 March 2019 ("**25 March PUB Letter**") providing its consent to the change in control of Tuaspring as contemplated under the Restructuring Agreement, on condition that the PUB, on or before 26 April 2019, has exercised its right to terminate the WPA and elected to acquire the Desalination Plant pursuant to the terms of the WPA;
- (c) the Company has received a further notice from the Investor dated 25 March 2019 ("**2nd Investor Notice**"): (i) asserting another Prescribed Occurrence based on a notice from Sonatrach SpA and L'Algerienne des Eaux ("**Magtaa Offtakers**") dated 25 December 2018 ("**Magtaa Offtakers' Notice**") alleging certain defaults under the concession agreement for the Magtaa desalination plant in Algeria ("**Magtaa WSPA**") and threatening to terminate the Magtaa WSPA in the event that these alleged defaults are not cured by 8 February 2019; and (ii) requesting that the Company remedy the asserted Prescribed Occurrence within two (2) weeks of the notice (ie, by 8 April 2019);
- (d) the Company has issued a letter to the Investor dated 25 March 2019 ("**25 March Company Letter**") refuting the 1st and 2nd Investor Notices (collectively, the "**Investor Notices**"); and
- (e) the Company has received the 25 March SIAS Letter setting out certain concerns in relation to the present uncertainties surrounding the reorganisation process.

Updates on the Reorganisation Process

The Investor has, on 13 March 2019, asserted to the Company that it will continue to comply with its obligations under the Restructuring Agreement and expects the Company to do the same. The Investor has also, pursuant to one of the conditions of the Restructuring Agreement, obtained a waiver from the Securities Industry Council (“SIC”) on 25 March 2019 so that it shall not be obliged to, pursuant to or as a result of its investment under the Restructuring Agreement, make a take-over offer under Rule 14 of the Singapore Code on Take-overs and Mergers (subject to certain conditions imposed by the SIC).

The Investor has, however, within the same period, also issued the Investor Notices, the contents of which are strenuously disputed by the Company.

Separately, citing concerns over working capital requirements post-investment in letters dated 7 March 2019, 13 March 2019 and 26 March 2019, the Investor has asserted that it does not agree to the terms of the Schemes proposed, in particular, the commercial term that an aggregate cash amount of S\$272 million (S\$271 million to be derived from its intended investment under the Restructuring Agreement and S\$1 million from the existing funds of the Company) will be used to fully settle the financial obligations specified in the Restructuring Agreement (and accordingly, that the applicable condition under the Restructuring Agreement will not be satisfied even if the Schemes have been sanctioned).

The Company wishes to announce that the commercial terms of how much cash and what portion of equity in the enlarged share capital of the restructured Company would be distributed to the relevant scheme parties were agreed between the Company and the Investor prior to the publication of the Schemes on 16 February 2019. The Schemes scrutinised at the hearing before the High Court of the Republic of Singapore on 21 February 2019 (which the Investor’s representative attended), when leave was granted to convene the scheme meetings scheduled on 5 April 2019 and 8 April 2019, were premised on these same commercial terms. The revisions to the Hyflux Scheme to accommodate the requests made in the 27 February SIAS Letter as well as amendments to the Other Schemes do not vary these commercial terms.

Moreover, while the clarification obtained from the PUB on its intention to elect to purchase only the Desalination Plant if the WPA is terminated and to grant a waiver of any compensation payable by Tuaspring in such event should help alleviate any asserted concerns over working capital requirements post-investment, the Investor has stated that it is not agreeable to varying the Restructuring Agreement, whether to accommodate a termination of the WPA on this basis or otherwise.

The Company disagrees with the allegations raised by the Investor in the Investor Notices and in its other correspondence, and has communicated its position to the Investor including as follows:

- (a) The Company has written to the Investor on 25 March 2019 to refute the Investor Notices. As stated in the 18 March Announcement, the Company, Tuaspring, or any other Key Group Company (as defined under the Restructuring Agreement to include the Company’s subsidiary for the Magtaa Project) “*ceas[ing] or threaten[ing] to cease for any reason to carry on its business in the usual and ordinary course*” amounts to a Prescribed Occurrence as defined in the Restructuring Agreement. The Company has been advised that no Prescribed Occurrence has arisen as of this date as:
 - (i) In relation to the 1st Investor Notice, the Investor relies on the PUB Notice and the PUB Press Release to assert a Prescribed Occurrence. However, the PUB has not terminated the WPA. Any statement by the PUB that it will terminate the WPA if the defaults are not remedied within the stipulated cure period does not constitute a threat on the part of the Company or Tuaspring to cease its business in the usual and ordinary course.

- (ii) Likewise, in relation to the 2nd Investor Notice, the Investor relies on the Magtaa Offtakers' Notice wherein the Magtaa Offtakers (and not Hyflux or its subsidiary for the Magtaa Project) have threatened to terminate the Magtaa WSPA. In this regard, it should be noted that: (1) the Group disputes the defaults asserted in the Magtaa Offtakers' Notice and the corresponding right to terminate the Magtaa WSPA based on such asserted defaults; (2) the Group has been taking active steps to resolve the matters set out in the Magtaa Offtakers' Notice; and (3) the Magtaa Offtakers have not terminated the Magtaa WSPA even though the prescribed remedy period for the asserted defaults under the Magtaa Offtakers' Notice expired on 8 February 2019.
- (b) The Company has written to the Investor on 10 March 2019, 13 March 2019, 16 March 2019 and 25 March 2019 to, amongst other things, refute the Investor's belated assertion that it has not agreed to the commercial terms of the Schemes, and in particular the aggregate cash amount to be allocated from its investment for the purpose of distribution to the relevant scheme parties. The Company's position is that an agreement with the Investor on the commercial terms of the overall cash and equity allocation were reached prior to the publication of the restructuring proposal on 16 February 2019.
- (c) If PUB were to proceed with a termination of the WPA, the earliest it can possibly exercise its right to do so if the asserted defaults are not remedied is on 6 April 2019 (after the cure period stipulated in the PUB Notice). To exercise its right to terminate the WPA, the PUB will have to provide Tuaspring with thirty (30) days written notice, which means that the WPA can only be terminated on 6 May 2019 at the earliest. Thus, any cessation of Tuaspring's business in relation to the WPA, which the Company acknowledges would give rise to a Prescribed Occurrence as defined in the Restructuring Agreement, can only take place after the Long-Stop Date (*ie*, after the completion date for the investment under the Restructuring Agreement assuming the conditions thereunder are met). The Company has been advised that the Investor cannot rely on the PUB's termination of the WPA to lawfully and effectively terminate the Restructuring Agreement prior to the Long-Stop Date.
- (d) If the Investor nonetheless seeks to wrongfully terminate the Restructuring Agreement (*eg*, in the absence of a Prescribed Occurrence), the terms of the Restructuring Agreement allow the Company to lay claim to the S\$38.9 million deposit (out of the Investor's proposed investment) which was placed into escrow shortly after the execution of the Restructuring Agreement.

With regard to the 25 March SIAS Letter which seeks a response on whether "*SMI's proposal is still on the table and that [SMI] has not given any reason to withdraw from the agreement*", the Investor has not stated to the Company that it will resile from the Restructuring Agreement and the Company remains of the view that the Investor is obliged to honour its commitment to invest under the Restructuring Agreement.

While the recent developments in the reorganisation process inject a measure of uncertainty as to the Investor's intentions in relation to the completion of the contemplated investment, the Company has been and will continue to seek to engage the Investor and other key stakeholders to facilitate completion under the Restructuring Agreement, and will provide timely updates in respect of the same. In the meantime, it should be noted that there is no assurance that the proposed investment by the Investor will be completed in the manner contemplated under the Restructuring Agreement or at all.

Nevertheless, given that the Restructuring Agreement remains in force, the Company will, as contractually required, continue to use its reasonable endeavours to procure the fulfilment of the necessary conditions in the Restructuring Agreement by the Long Stop-Date. The Restructuring Agreement also remains the best available option for the Company at this time.

These conditions include a full and final settlement, discharge and/or redemption of the financial obligations currently forming the subject matter of the relevant Schemes as well as the approval of the investment contemplated under the Restructuring Agreement by the shareholders of the Company voting at an EGM.

As such, the Company wishes to announce that it is proceeding with the scheme meetings on 5 April 2019 (for the Hyflux Scheme) and 8 April 2019 (for the Other Schemes) as scheduled. The Company will also proceed with the holding of an EGM on 15 April 2019, and will despatch the requisite circular shortly.

Terms of the Proposed Scheme

As stated in the 8 March Announcement, the Company agreed to make amendments to the Hyflux Scheme to accommodate the concerns expressed in the 27 February SIAS Letter, which requested, among other things, for holders of Perpetual Securities and Preference Shares to receive further payouts from the extinguishment of contingent claims.

Separately, the Company has also made amendments to the Other Schemes to, among other things, recalibrate their respective cash allocation (without adjusting the aggregate cash allocation for all of the Schemes) so as to optimise recovery of the Scheme Parties thereunder.

The Company has published the updated Schemes today. The Company has also published Explanatory Statement Addendums to the Schemes today to explain the changes made to the Schemes and to provide further information on voting. The updated Schemes and their respective Explanatory Statement Addendums can be accessed at <https://www.hyflux.com/scheme-documents/>.

Scheme Parties (as defined under the updated Schemes) are reminded to submit their proxy forms in the manner set out in the relevant Explanatory Statement Addendum. The Company has also uploaded voting FAQs on its website to provide further guidance on the voting process, and the same can be accessed at <https://www.hyflux.com/scheme-meeting-voting-faqs/>.

The scheme meetings will proceed as announced by the Company on 22 February 2019 (please note the change in venue for the scheme meetings for the Hyflux Scheme):

S/N	Scheme Company	Parties with an interest in the meetings	Date, venue and time of meetings
(1)	HYFLUX LTD (UEN No. 200002722Z)	<ul style="list-style-type: none"> • Holders of Notes, Perpetual Securities and Preference Shares. • Banks with claims under facilities and contingent claims against Hyflux Ltd. • Trade creditors of Hyflux Ltd. 	<p><u>Date:</u> Friday, 5 April 2019</p> <p><u>Venue:</u> 1 Vista Exchange Green, Singapore 138617 (or such other place as may be notified by announcement on SGXNet)</p> <p><u>Time:</u> For banks, holders of Notes and trade creditors: 12 noon For holders of Perpetual Securities and Preference Shares: 7 pm</p>
(2)	HYFLUX MEMBRANE MANUFACTURING (S) PTE LTD (UEN No. 200702494M)	Trade creditors of Hyflux Membrane Manufacturing (S) Pte. Ltd. listed in Schedules 1 and 2 of the scheme of	<p><u>Date:</u> Monday, 8 April 2019</p> <p><u>Venue:</u> Hyflux Innovation Centre, 80 Bendemeer Road, Singapore 339949</p>

		arrangement proposed by Hyflux Membrane Manufacturing (S) Pte Ltd.	(or such other place as may be notified by an announcement on SGXNet) Time: 10 am
(3)	HYDROCHEM (S) PTE LTD (UEN No. 198902670Z)	Trade creditors of Hyflux Engineering Pte Ltd listed in Schedules 1 and 2 of the scheme of arrangement proposed by Hydrochem (S) Pte Ltd.	Date: Monday, 8 April 2019 Venue: Hyflux Innovation Centre, 80 Bendemeer Road, Singapore 339949 (or such other place as may be notified by announcement on SGXNet) Time: 10 am
(4)	HYFLUX ENGINEERING PTE LTD (UEN No. 20009792D)	Trade creditors of Hyflux Engineering Pte Ltd listed in Schedules 1 and 2 of the scheme of arrangement proposed by Hyflux Engineering Pte Ltd.	Date: Monday, 8 April 2019 Venue: Hyflux Innovation Centre, 80 Bendemeer Road, Singapore 339949 (or such other place as may be notified by announcement on SGXNet) Time: 2 pm

Cancellation of third town hall meeting

In the light of the upcoming scheme meetings for the Hyflux Scheme that will be held less than a fortnight from this announcement, and scheduling difficulties with the Investor, the Company will not be holding a third town hall meeting prior to the scheme meetings.

The Company understands that the SIAS has been organising its own series of town hall meetings and focus group meetings (comprising holders of Perpetual Securities and Preference Shares). The Company will continue to compile and provide responses to the questions raised during these sessions (existing FAQs for shareholders and holders of Notes, Perpetual Securities and Preference Shares can be accessed at <https://www.hyflux.com/financial-reorganisation-exercise/shareholders-and-holders-of-securities/>), and will continue to engage its stakeholders through the presently available channels.

Please monitor SGXNet and the Company's website for any announcements or updates on the Reorganisation. If you are a holder of any securities of the Company and wish to receive email alerts providing these updates, please register your request at <http://investors.hyflux.com/contacts.html>. Otherwise, all information and updates will be disseminated via SGXNet and/or the Company's website (<https://www.hyflux.com/financial-reorganisation-exercise/>).

Shareholders and holders of the Securities are advised to exercise caution at all times when dealing in the shares and/or Securities, and should consult their stockbrokers, bank managers, solicitors or other professional advisors if they have any doubt about the actions they should take.

BY ORDER OF THE BOARD

Lim Poh Fong

Company Secretary

Submitted to SGX-ST on 26 March 2019