CIRCULAR DATED 29 MARCH 2019

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

If you are in any doubt as to the contents herein or course of action that you should take, you should consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

All capitalised terms used but not defined shall have the same meanings ascribed to them in the "Definitions" section of this Circular.

If you have sold or transferred all your Shares held through the CDP, you need not forward this Circular to the purchaser or transferee as arrangements will be made by CDP for a separate Circular to be sent to the purchaser or transferee. If you have sold or transferred all your Shares which are not deposited with CDP, you should immediately forward this Circular to the purchaser or transferee or to the bank, stockbroker or agent through whom the sale or transfer was effected for onward transmission to the purchaser or the transferee. The Singapore Exchange Securities Trading Limited takes no responsibility for the accuracy of any of the statements made, reports contained or opinions expressed in this Circular. The in-principle approval of the SGX-ST for the listing of and quotation for the SMI Shares and the Debt Conversion Shares on the SGX-ST is not an indication of the merits of the Preference Shares Buyback, the Debt Conversion Shares Issuance, the Proposed SMI Investment, the Proposed Whitewash Resolution, the Debt Conversion Shares, the SMI Shares, or the Company and/or its subsidiaries.

This Circular shall not be construed as, and does not constitute, an offer, invitation or solicitation for the subscription, sale or purchase of securities in any jurisdiction.

Hyflux®

HYFLUX LTD

(Company Registration No.: 200002722Z)
(Incorporated in the Republic of Singapore)

CIRCULAR TO SHAREHOLDERS

in relation to

(1) THE PROPOSED PREFERENCE SHARES BUYBACK;
(2) THE PROPOSED DEBT CONVERSION SHARES ISSUANCE IN CONNECTION WITH THE PROPOSED SCHEME;
(3) THE PROPOSED SMI INVESTMENT; AND
(4) THE PROPOSED WHITEWASH RESOLUTION IN CONNECTION WITH THE PROPOSED SMI INVESTMENT.

Independent Financial Adviser to the Independent Directors

STIRLING COLEMAN
施霖高诚

STIRLING COLEMAN CAPITAL LIMITED

(Company Registration No.: 200105040N)
(Incorporated in the Republic of Singapore)

IMPORTANT DATES, TIMES AND VENUE

Last date and time for lodgement of Proxy Form	:	12 April 2019 at 2.00 p.m. (Singapore time)
Date and time of Extraordinary General Meeting	:	15 April 2019 at 2.00 p.m. (Singapore time)
Venue of Extraordinary General Meeting	:	Hyflux Innovation Centre 80 Bendemeer Road Singapore 339949

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In this Circular, the following definitions apply throughout unless otherwise stated:

"**18 October Announcement**"	:	The announcement of the Company on 18 October 2018 in relation to, *inter alia*, the entry by the Company and the Investor into the Restructuring Agreement.
"**9M2018**"	:	The nine (9) months ended 30 September 2018.
"**9M2018 Financial Statements**"	:	The unaudited consolidated financial statements of the Group for the nine (9) months ended 30 September 2018.
"**Additional Listing Application**"	:	The application made by the Company to the SGX-ST dated 22 February 2019 for the listing and quotation of the SMI Shares and Debt Conversion Shares on the Main Board of the SGX-ST.
"**Board**"	:	The board of directors of the Company, as constituted from time to time.
"**CDP**"	:	The Central Depository (Pte) Limited.
"**Circular**"	:	This circular to Shareholders dated 29 March 2019.
"**Code**"	:	The Singapore Code on Take-overs and Mergers, as amended, modified or supplemented from time to time.
"**Companies Act**"	:	The Companies Act (Chapter 50 of Singapore).
"**Company**"	:	Hyflux Ltd.
"**Completion**"	:	The completion of the Proposed Restructuring.
"**Concert Party Group**"	:	The Investor and parties acting in concert with it.
"**Conditions Precedent**"	:	The Conditions as defined in the Restructuring Agreement.
"**Consortium**"	:	The consortium formed between the Salim Group led by Mr. Anthony Salim, and the Medco Group led by Mr. Arifin Panigoro in the ownership percentages of 60% and 40% respectively.
"**Contingent Claim**"	:	Any claim that is not an Excluded Claim arising under or in respect of the matters set out in Schedule 2 of the Scheme Document as supplemented, amended and restated from time to time, which, at the time of the determination of any matter under or in connection with the Proposed Scheme, is a contingent liability of the Company which may or may not arise in the future, but in respect of which, as at such time, is not then a legally valid and binding debt of a definite amount then actually due from the Company.
"**Contingent Claimant**"	:	Any person that holds a Contingent Claim.
"**Court**"	:	The High Court of the Republic of Singapore.
"**Debt Conversion Shares**"	:	Up to 7,067,564,901 new Shares to be issued to the Unsecured Scheme Parties and Debt Securities Scheme Parties pursuant to the terms of the Proposed Scheme, such number of new Shares representing 36% of the Enlarged Issued Share Capital.

"**Debt Conversion Shares Issuance**"	:	The allotment and issuance of the Debt Conversion Shares to the Unsecured Scheme Parties and Debt Securities Scheme Parties.
"**Debt Conversion Share Issue Price**"	:	The price of approximately S$0.034 per Debt Conversion Share.
"**Debt Restructuring Exercise**"	:	The court supervised process to reorganise the liabilities and businesses of the Company and certain identified subsidiaries, including, *inter alia*, Hydrochem, Hyflux Engineering and Hyflux Membrane Manufacturing, pursuant to Section 211B(1) of the Companies Act.
"**Debt Securities**"	:	The Preference Shares and Perpetual Capital Securities collectively.
"**Debt Securities Claims**"	:	The claims of the Debt Securities Scheme Parties.
"**Debt Securities Scheme Parties**"	:	The holders of Perpetual Capital Securities and/or Preference Shares.
"**Depositor**"	:	Has the same meaning ascribed to it in Section 81SF of the SFA.
"**DIP Loan**"	:	The loan of a principal amount of S$30,000,000 granted by the Investor to the Company for the interim working capital requirement of the Group for the period prior to completion of the Proposed SMI Investment, occurring under the terms and subject to the conditions of a loan agreement.
"**Director**"	:	A director of the Company as at the Latest Practicable Date.
"**EGM**"	:	Extraordinary general meeting of the Company.
"**EGM Resolutions**"	:	The resolutions as set out in the Notice of EGM.
"**EMA**"	:	The Energy Market Authority.
"**Encumbrance**"	:	Any mortgage, assignment of receivables, debenture, lien, hypothecation, charge, pledge, title retention, right to acquire, security interest, option, pre-emptive or other similar right, right of first refusal, restriction, third-party right or interest, any other encumbrance, condition or security interest whatsoever or any other type of preferential arrangement (including without limitation, a title transfer or retention arrangement) having similar effect.
"**Enlarged Issued Share Capital**"	:	The issued share capital of the Company on a fully diluted basis (excluding treasury shares) on the assumption that (a) Completion has taken place (b) all the SMI Shares and Debt Conversion Shares are issued and exercised in full and (c) the Proposed Scheme has become effective (including the formal cancellation of the Preference Shares by way of the Preference Shares Buyback).
"**EPC**"	:	Engineering, Procurement and Construction.
"**Excluded Claim**"	:	Has the meaning ascribed to it in the Scheme Document.

"**Existing Shareholders**"	:	Means the holders of Shares in the Company as of the Latest Practicable Date.
"**EY**"	:	Ernst & Young Solutions LLP.
"**EY Liquidation Analysis Report**"	:	The liquidation analysis report prepared by EY which is set out in Appendix B to this Circular.
"**Facilities Lenders**"	:	Each of the lenders under the respective loan agreements, credit agreements, facility letters and all other credit facility documents made between the Company and any bank or financial institution or executed by the Company in favour of any bank or financial institution as set out in Schedule 1 of the Scheme Document.
"**Group**"	:	The Company and its subsidiaries.
"**HS Claim**"	:	Any claim of Hyfluxshop Holdings Ltd or a subsidiary of Hyfluxshop Holdings Ltd that is not an Excluded Claim.
"**Hydrochem**"	:	Hydrochem (S) Pte Ltd.
"**Hyflux Engineering**"	:	Hyflux Engineering Pte Ltd.
"**Hyflux Membrane Manufacturing**"	:	Hyflux Membrane Manufacturing (S) Pte Ltd.
"**IFA**"	:	The independent financial advisor to the Board, Stirling Coleman Capital Limited.
"**IFA Letter**"	:	The letter from the IFA to the Independent Directors dated 29 March 2019, as set out in Appendix A of this Circular.
"**IFA Opinion**"	:	The opinion of the IFA in relation to the Proposed Whitewash Resolution, as more particularly set out in Section 9.2 of this Circular.
"**Independent Directors**"	:	The Directors who are considered independent for the purposes of making a recommendation to the Shareholders on the EGM Resolutions, namely, all of the Directors.
"**Independent Shareholders**"	:	The Shareholders who are deemed independent for the purpose of the Proposed Whitewash Resolution, being the Shareholders other than (a) the Concert Party Group and (b) parties not independent of the Concert Party Group.
"**Intercompany Claim**"	:	Any claim of a subsidiary of the Company against the Company that is not a claim arising under or in respect of the TuasOne EPC Contract Parent Company Guarantee.
"**Investor**"	:	SM Investments Pte. Ltd.
"**Investor Notices**"	:	The notices from the Investor to the Company on various occasions since 7 March 2019 making certain assertions in connection with the Restructuring Agreement.
"**Investor Shareholder's Loan**"	:	The shareholder's loan granted by the Investor to the Company for a principal amount of S$130,000,000.

"**KfW**"	:	KfW IPEX-Bank GmbH.
"**Last Trading Day**"	:	18 May 2018, being the last trading day prior to the voluntary suspension of trading of the Shares on the Main Board of the SGX-ST.
"**Latest Practicable Date**"	:	26 March 2019, being the latest practicable date prior to the printing of this Circular.
"**Listing Manual**"	:	Listing Manual of the Main Board of the SGX-ST.
"**Main Board**"	:	The Main Board of the SGX-ST.
"**MEI**"	:	PT Medco Energi Internasional Tbk.
"**MPI**"	:	PT Medco Power Indonesia.
"**NEA**"	:	The National Environment Agency.
"**Noteholders**"	:	The holders of S$100,000,000 4.25% notes due 2018, S$65,000,000 4.60% notes due 2019, and S$100,000,000 4.20% notes due 2019 issued pursuant to the Company's S$1,500,000,000 Multicurrency Debt Issuance Programme.
"**NTA**"	:	The net tangible assets of the Company.
"**Other Claim**"	:	Any claim against the Company other than (a) claims by the Contingent Claimants, the Facilities Lenders, KfW, Subordinated Scheme Parties, the Noteholders, Debt Securities Scheme Parties and (b) Excluded Claims.
"**Other Claimant**"	:	Any person that holds an Other Claim.
"**PCOD**"	:	Project commercial operation date.
"**Perpetual Capital Securities**"	:	The S$500 million in aggregate principal amount of 6.00% Perpetual Capital Securities (SGX:BTWZ) issued by the Company and listed on the Main Board of the SGX-ST on 30 May 2016.
"**Preference Shares**"	:	The S$400,000,000 8.00% cumulative non-convertible non-voting perpetual class A preference shares (SGX:N2H) issued by the Company.
"**Preference Shareholders**"	:	The holders of Preference Shares.
"**Preference Shares Buyback**"	:	The purchase of the Preference Shares pursuant to the Companies Act including any and all rights and privileges attached to such Preference Shares.
"**Proposed Restructuring**"	:	The Debt Restructuring Exercise and the Proposed SMI Investment.

"**Proposed Scheme**"	:	The compromise and arrangement to be entered into by the Company with the Scheme Parties pursuant to Section 210 of the Companies Act for the full and final satisfaction and discharge of all Unsecured Claims, Debt Securities Claims and Subordinated Claims.
"**Proposed SMI Investment**"	:	The subscription by the Investor for the SMI Shares for an aggregate subscription amount of S$400,000,000 and the grant by the Investor to the Company of a shareholder's loan of a principal amount of S$130,000,000.
"**Proposed Whitewash Resolution**"	:	The resolution to be passed by a majority of the Shareholders at the EGM waiving their right to receive a general offer from the Investor pursuant to Rule 14 of the Code.
"**Proposed Whitewash Waiver**"	:	The waiver granted by the SIC of the obligations of the Investor to make a mandatory general offer for Shares of the Company pursuant to Rule 14 of the Code as a result of or pursuant to the SMI Shares Issuance, subject to the satisfaction of the SIC Conditions.
"**Proxy Form**"	:	The proxy form, in respect of the EGM, accompanying this Circular.
"**PUB**"	:	The Public Utilities Board.
"**Record Date**"	:	In relation to any dividends, rights, allotments or other distributions that may be declared or paid to the Shareholders in respect of Shares beneficially owned by them, the date as at the close of business (or such other time as may have been notified by the Company) on which the Shareholders must be registered with the Company or with CDP, as the case may be, in order to participate in such dividends, rights, allotments or other distributions that may be declared or paid.
"**Restructuring Agreement**"	:	Means the restructuring agreement dated 18 October 2018 entered into between the Investor and the Company in relation to, *inter alia*, the Proposed SMI Investment.
"**Restructuring Effective Date**"	:	The later of: (a) the date on which all of the Conditions Precedent (other than Clause 5.1(d) of the Restructuring Agreement) are fulfilled or waived; and (b) the Scheme Effective Date.
"**Scheme Document**"	:	The scheme document to be entered into between the Company and the Scheme Parties in relation to the Proposed Scheme.
"**Scheme Effective Date**"	:	The date on which the Court order sanctioning the Proposed Scheme under the Companies Act is lodged with the Accounting and Corporate Regulatory Authority of Singapore.
"**Scheme Manager**"	:	The person appointed from time to time by the Court to administer the Proposed Scheme, which may include Ms Angela Ee and Mr Glenn Peters, both of Ernst & Young Solutions LLP.
"**Scheme Meetings**"	:	The meetings of the Scheme Parties to be convened pursuant to the order of the Court.

"**Scheme Parties**"	:	The Debt Securities Scheme Parties, the Subordinated Scheme Parties, and the Unsecured Scheme Parties.
"**Securities Account**"	:	A securities account maintained by a Depositor with CDP but does not include a securities sub-account.
"**SFA**"	:	The Securities and Futures Act (Chapter 289 of Singapore).
"**SGX-ST**"	:	The Singapore Exchange Securities Trading Limited.
"**Shareholders**"	:	The registered shareholders of the Shares, except that where the registered holder is CDP, the term "Shareholders" shall, in relation to such Shares, mean the Depositors whose Securities Accounts are credited with Shares.
"**Shareholder's Loan Agreement**"	:	Means the shareholder's loan agreement dated 18 October 2018 entered into between the Company and the Investor in relation to the Investor Shareholder's Loan.
"**Shares**"	:	Ordinary shares in the capital of the Company.
"**SIC**"	:	The Securities Industry Council of Singapore.
"**SIC Conditions**"	:	The conditions of the Proposed Whitewash Waiver as set out in the letter from the SIC to the Company dated 25 March 2019. Further details are set out in Section 6.2 of this Circular.
"**SMI**"	:	SM Investments Pte. Ltd.
"**SMI Shares**"	:	11,779,274,835 new Shares to be allotted and issued to the Investor, such number of Shares representing 60% of the Enlarged Issued Share Capital.
"**SMI Shares Issuance**"	:	The allotment and issuance of the SMI Shares for an aggregate subscription amount of S$400,000,000.
"**SMI Shares Issue Price**"	:	The price of approximately S$0.034 per SMI Share.
"**Subordinated Claim**"	:	Any Intercompany Claim or HS Claim.
"**Subordinated Scheme Party**"	:	Any person that holds an Intercompany Claim or HS Claim.
"**Substantial Shareholder**"	:	A person who has an interest in not less than 5% of all the Shares.
"**S$**"	:	The Singapore Dollar.
"**TuasOne**"	:	TuasOne Pte Ltd.
"**TuasOne EPC Contract**"	:	The contract for design, engineering, procurement, construction, completion, start-up, testing and commissioning of waste-to-energy plant dated 26 April 2016 entered into between: (a) TuasOne, as employer; and (b) Hydrochem, as contractor.
"**TuasOne EPC Contract Parent Company Guarantee**"	:	The deed of guarantee dated 12 May 2016 made by the Company, as guarantor, for the benefit of TuasOne, in respect of the obligations of Hydrochem (in its capacity as an EPC subcontractor) under the TuasOne EPC Contract.

"**Tuaspring**"	:	Tuaspring Pte. Ltd..
"**Unsecured Claims**"	:	The claims of the Contingent Claimants, the Facilities Lenders, KfW, the Other Claimants and the Noteholders.
"**Unsecured Scheme Parties**"	:	The Contingent Claimants, the Facilities Lenders, KfW, the Other Claimants and the Noteholders.
"**US$**"	:	The United States dollar.
"**%**" or "**per cent.**"	:	Per centum or percentage.

The terms "**subsidiary**" and "**related corporation**" have the meanings ascribed to them respectively in Section 5 and Section 6 of the Companies Act.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing one gender shall include the other gender. References to persons shall, where applicable, include corporations.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined in the Companies Act, the SFA, the Listing Manual or the Code or any modification thereof and used in this Circular shall, where applicable, have the meaning assigned to it under the Companies Act, the SFA, the Listing Manual or the Code or any modification thereof, as the case may be, unless the context otherwise requires.

Any reference to a time of day and date in this Circular is made by reference to Singapore time and date, unless otherwise stated.

Any discrepancies in this Circular between the listed amounts and the total thereof are due to rounding. Accordingly, figures shown as totals may not reflect an arithmetic aggregation of the figures that precede them.

Forward-Looking Statements

All statements other than statements of historical facts included in this Circular are or may be forward-looking statements. Forward-looking statements include but are not limited to those using words such as "seek", "expect", "anticipate", "estimate", "believe", "intend", "project", "plan", "potential", "strategy", "forecast" and similar expressions or future or conditional verbs such as "will", "would", "should", "could", "may" and "might". These statements reflect the current expectations, beliefs, hopes, intentions or strategies of the party making the statements regarding the future and assumptions in light of currently available information. Such forward-looking statements are not guarantees of future performance or events and involve known and unknown risks and uncertainties. Accordingly, actual results may differ materially from those described in such forward-looking statements. Shareholders and investors should not place undue reliance on such forward-looking statements, and neither the Company nor the Investor undertake any obligation to update publicly or revise any forward-looking statements.

INDICATIVE TIMETABLE

The indicative timetable for the Proposed Restructuring is set out below.

Event		Date and Time
Hyflux Ltd Scheme Meeting	:	5 April 2019 For Unsecured Scheme Parties: 12.00 p.m. (Singapore time) For Debt Securities Scheme Parties: 7 p.m. (Singapore time)
Hyflux Membrane Manufacturing Scheme Meeting and Hydrochem Scheme Meeting	:	8 April 2019 10 a.m. (Singapore time)
Hyflux Engineering Scheme Meeting	:	8 April 2019 2 p.m. (Singapore time)
Court Sanction of Proposed Scheme	:	11 April 2019
Extraordinary General Meeting of Shareholders[(1)]	:	15 April 2019, 2.00 p.m. (Singapore time)
Expected Restructuring Effective Date[(2)]	:	16 April 2019

Notes:

(1) On the assumption that the Proposed Scheme has been approved by the requisite Scheme Parties in accordance with Section 210(3AB) of the Companies Act.

(2) On the assumption that all Conditions Precedent under the Restructuring Agreement are either fulfilled or waived.

HYFLUX LTD

(Incorporated in Singapore)

Directors

Olivia Lum Ooi Lin (Executive Chairman and Group CEO)
Teo Kiang Kok (Lead Independent Director)
Lee Joo Hai (Non-Executive Independent Director)
Gay Chee Cheong (Non-Executive Independent Director)
Christopher Murugasu (Non-Executive Independent Director)
Simon Tay (Non-Executive Independent Director)
Lau Wing Tat (Non-Executive Independent Director)
Gary Kee Eng Kwee (Non-Executive Independent Director)

Registered Office

Hyflux Innovation Centre
80 Bendemeer Road
Singapore 339949

29 March 2019

To: The Shareholders of Hyflux Ltd

Dear Shareholders

1. INTRODUCTION

1.1 Overview of the Proposed Restructuring

On 22 May 2018, the Company announced that applications had been made to the Court pursuant to Section 211B(1) of the Companies Act to commence a court supervised process to reorganise the liabilities and businesses of the Company and certain identified subsidiaries, including, *inter alia*, Hydrochem, Hyflux Engineering and Hyflux Membrane Manufacturing ("**Debt Restructuring Exercise**").

In connection with the Debt Restructuring Exercise, the Company intends to enter into a compromise and arrangement with the Scheme Parties pursuant to Section 210 of the Companies Act for the full and final satisfaction and discharge of all Unsecured Claims, Debt Securities Claims and Subordinated Claims ("**Proposed Scheme**"). The Proposed Scheme contemplates, *inter alia*:

(a) the cancellation of all the Preference Shares, to be implemented by way of a purchase by the Company of the Preference Shares pursuant to the Preference Shares Buyback; and

(b) the allotment and issuance of the Debt Conversion Shares to the Unsecured Scheme Parties and Debt Securities Scheme Parties (the "**Debt Conversion Shares Issuance**") as partial settlement of the liabilities owed to them.

In addition, the Company conducted a competitive bid process to pursue strategic investments in the overall business of the Group as part of the Proposed Restructuring (as defined below). The bid process involved seeking interest from various potential investors and having considered the various proposals submitted by potential investors, the Company announced on 18 October 2018 ("**18 October Announcement**") that it had entered into a restructuring agreement ("**Restructuring Agreement**") with SM Investments Pte. Ltd. (the "**Investor**") pursuant to which the Investor would, *inter alia*:

(i) subscribe for such number of Shares representing 60% of the Enlarged Issued Share Capital ("**SMI Shares**") for an aggregate subscription amount of S$400,000,000 (the "**SMI Shares Issuance**"); and

(ii) grant the Company a loan of a principal amount of S$130,000,000,

(collectively, the "**Proposed SMI Investment**").

In the 18 October Announcement, the Company also announced that the Investor had granted to the Company a loan of a principal amount of S$30,000,000 for the interim working capital requirement of the Group for the period prior to completion of the Proposed SMI Investment occurring under the terms and subject to the conditions of a loan agreement ("**DIP Loan**"). As at the Latest Practicable Date, the DIP Loan has not been utilised.

1.2 **Proposed Whitewash Resolution**

Pursuant to Rule 14.1 of the Code, except with the SIC's consent, where any person acquires, whether by a series of transactions over a period of time or not, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights of a company, such person will be required to make a mandatory general offer for all the shares not already owned or controlled by him.

As the SMI Shares Issuance will result in the Investor holding and/or acquiring more than 30% of the voting rights of the Company, the Investor is required to make a mandatory general offer for the Shares not already held by it under Rule 14.1 of the Code, unless such requirement is waived.

The SIC ruled on 25 March 2019 that the Investor will not be required to make a mandatory general offer for the Company as a result of or pursuant to the SMI Shares Issuance, subject to the fulfilment of the SIC Conditions, which includes the Independent Shareholders approving the Proposed Whitewash Resolution at the EGM. A detailed description of the Proposed Whitewash Resolution to be obtained from the Independent Shareholders is set out in Section 6 of this Circular.

1.3 **Purpose of Circular**

The purpose of this Circular is to provide Shareholders with relevant information relating to:

(a) the Preference Shares Buyback;

(b) the Debt Conversion Shares Issuance in connection with the Proposed Scheme;

(c) the Proposed SMI Investment; and

(d) the Proposed Whitewash Resolution in connection with the Proposed SMI Investment,

and to seek approval from the Shareholders in respect of the same.

1.4 **Inter-conditional Resolutions**

Shareholders should note that the resolutions as set out in the Notice of EGM (the "**EGM Resolutions**") are:

(a) subject to the Proposed Scheme coming into effect; and

(b) inter-conditional upon the passing of each EGM Resolution, such that if any EGM Resolution is not approved by the Shareholders, all of the EGM Resolutions shall be deemed not approved.

In the event that any EGM Resolution is not approved, the Proposed SMI Investment and the Proposed Scheme will lapse and if no alternative investor steps in, it is likely that the Group will go into liquidation.

2. THE PROPOSED RESTRUCTURING

2.1 Background of the Proposed Restructuring

The excess power generation capacity in Singapore, coupled with the weak demand in the Singapore market, resulted in depressed electricity prices, resulting in significant losses in the Company's subsidiaries, Tuaspring and Hyflux Energy Pte Ltd. This has in turn adversely impacted the Group's financial performance since the power plant commenced operation in 2016. The impact of the weak Singapore power market, as evidenced by an increase in the reserve margin projected by the EMA, drove the Group to full year losses in 2017, with the loss continuing into the first quarter of 2018.

This was compounded by challenges on the repatriation of monies into Singapore from its overseas subsidiaries, particularly in relation to subsidiaries in China and Oman wherein there were cash and cash equivalents of S$46.6 million and S$44.7 million respectively as at 31 March 2018. In the second quarter of 2018, there were increasing requests for monies to be placed in fixed deposit accounts for performance bonds to be issued or renewed in support of the existing projects.

To address these challenges, preserve value and maintain a sustainable capital structure, the Board took the view that a transparent and court supervised reorganisation process was in the best interests of all of the Company's stakeholders and hence applied to the Court to commence the Debt Restructuring Exercise.

2.2 Rationale for the Proposed Restructuring

The Company has undertaken the Debt Restructuring Exercise and the Proposed SMI Investment (collectively, the "**Proposed Restructuring**").

The Proposed Restructuring is intended to serve a dual function:

(a) comprehensively restructure the Group's financial obligations. The Proposed Restructuring allows the Company to comprehensively restructure its obligations with the Scheme Parties in a way that would significantly reduce the financial burden on the Company and alleviate pressures faced by the Company on its cash flow; and

(b) enable the Group to seek fresh capital for deployment in areas for growth and create value for its stakeholders. In this regard, the Company has been pursuing potential strategic investments for the Group. In line with this business objective, the Proposed Restructuring will enable the Company to maximise the value of the Group for both its creditors and Shareholders, and to ensure the long-term sustainability and competitiveness of the Group with a view to deliver value to its Shareholders and other stakeholders.

2.3 The Debt Restructuring Exercise

The Debt Restructuring Exercise will be implemented as follows.

(a) the Company had filed an application to the Court to, *inter alia*, propose the Proposed Scheme with the Scheme Parties pursuant to Section 210(1) of the Companies Act. On 21 February 2019, the Court made certain orders including, *inter alia*, that (i) the Company be at liberty to convene meetings of the Scheme Parties ("**Scheme Meetings**") within three (3) months or such other period as the Court may order from 21 February 2019 for the purposes of approving the Proposed Scheme; and (ii) in the event that the Proposed Scheme is approved at the Scheme Meetings, pursuant to Section 210(4) of the Companies Act, the Company be at liberty to apply for an order of Court approving the Proposed Scheme, with such modifications proposed and approved at the Scheme Meetings (if any), so as to be binding on the Company and the Scheme Parties.

(b) Pursuant to the Proposed Scheme, with effect on and from the Restructuring Effective Date:

(i) each Unsecured Scheme Party releases all of its rights, title and interest in the Unsecured Claims in consideration for its entitlements under the Proposed Scheme;

(ii) each holder of Perpetual Capital Securities irrevocably agrees that the distribution of his or her entitlements under the Proposed Scheme by the Company constitutes a purchase of his or her Perpetual Capital Securities including his or her rights and privileges attached to such Perpetual Capital Securities;

(iii) each holder of Preference Shares irrevocably agrees that the distribution of his or her entitlements under the Proposed Scheme by the Company constitutes a purchase of his or her Preference Shares pursuant to the Companies Act including his or her rights and privileges attached to such Preference Shares (the "**Preference Shares Buyback**"); and

(iv) each Subordinated Scheme Party releases all of its rights, title and interest in the Subordinated Claims in consideration for its entitlements under the Proposed Scheme.

(c) In consideration for the above, the Scheme Parties will receive (in aggregate):

(i) approximately S$259,000,000 in cash payout; and

(ii) up to 7,067,564,901 new Shares, representing 36% of the Enlarged Issued Share Capital.

For further information on the Debt Restructuring Exercise (including the amounts owing to each of the Unsecured Scheme Parties, Debt Securities Scheme Parties and Subordinated Scheme Parties and the proposed payouts to such parties), please refer to Appendix B to this Circular.

2.4 Resumption of Trading

The Company intends to take steps to effect the resumption of trading of the Shares after the completion of the Proposed Restructuring and the announcement of the unaudited full year financial results of the Group for the financial year ended 31 December 2018.

3. THE PREFERENCE SHARES BUYBACK

3.1 Background of the Preference Shares Buyback

As noted in Section 2.3(b)(iii), the Proposed Scheme contemplates the Preference Shareholders releasing all their rights, title and interest in the Preference Shares in exchange for the amounts as more particularly described in Section 3.2 below. The Preference Shares Buyback is a mechanical step to effect such release and the formal cancellation of the Preference Shares.

3.2 Maximum number of Preference Shares and Purchase Price

The maximum number of Preference Shares which may be purchased by the Company pursuant to the Preference Shares Buyback is 4,000,000 Preference Shares, which represents 100% of the issued Preference Share capital of the Company. Under Section 76B(3D) of the Companies Act, there is no limit on the number of redeemable preference shares that may be purchased by the Company. The share buyback rule in Rule 882 of the Listing Manual is not applicable to the Preference Shares Buyback.

The purchase price to be paid by the Company for the Preference Shares will be an amount equivalent to approximately S$38,700,000, being the sum of: (a) the cash payout of approximately S$12,000,000 to the Preference Shareholders under the Proposed Scheme; and (b) the implied value of the new Shares representing 4% of the Enlarged Issued Share Capital, being the shares payout to the Preference Shareholders under the Proposed Scheme.

3.3 **Duration of Authority**

If the proposed adoption of the Preference Shares Buyback is approved by the Shareholders in the EGM, the Company will purchase the Preference Shares in accordance with the terms of the Proposed Scheme, at any time and from time to time, on and from the date of the EGM, up to:

(a) the date on which the next annual general meeting of the Company is held or is required by law to be held;

(b) the date on which the authority conferred by the Preference Shares Buyback is revoked or varied by the Shareholders in a general meeting; and

(c) the date on which the purchases and acquisitions of the Preference Shares pursuant to the Preference Shares Buyback are carried out to the full extent mandated,

whichever is earliest.

3.4 **Source of Funds**

The Preference Shares Buyback will be funded from the amounts to be received by the Company under the Proposed SMI Investment and the issuance of Debt Conversion Shares (as described in Section 3.2).

3.5 **Status of the Purchased Shares**

All Preference Shares which are purchased by the Company are deemed cancelled immediately on purchase and all rights and privileges attached to the Preference Shares will expire on such cancellation.

3.6 **Singapore Take-over Code Implications arising from the Preference Shares Buyback**

There are no Code implications arising from the purchase or acquisition of the Preference Shares by the Company pursuant to the Preference Shares Buyback. As the maximum number of new Shares that may be issued to Preference Shareholders represents 4% of the Enlarged Issued Share Capital of the Company, no Preference Shareholder will obtain effective control of the Company and become obliged to make an offer under Rule 14 of the Code solely as a result of the issuance of the new Shares under the Proposed Scheme or arising from the Preference Shares Buyback.

3.7 **Listing Status on the SGX-ST**

The Listing Manual requires a listed company to ensure that at least 10% of any class of its listed securities (excluding treasury shares, preference shares and convertible equity securities) must be held by the public.

The purchase of the Preference Shares by the Company pursuant to the Preference Shares Buyback will not affect the listing status of the Company on the SGX-ST since the total percentage of Shares in the hands of the public after the Proposed Restructuring will remain more than 10%.

3.8 **Preference Shares Buybacks in the Previous 12 Months**

The Company has not entered into transactions to purchase or acquire any Shares or Preference Shares during the 12 months immediately preceding the Latest Practicable Date.

4. THE DEBT CONVERSION SHARES ISSUANCE

4.1 Background of the Debt Conversion Shares Issuance

As noted in Section 2.3 of this Circular, the Debt Restructuring Exercise involves the full discharge of the liabilities due and owing to the Unsecured Scheme Parties and the Debt Securities Scheme Parties. The consideration payable by the Company will be partially satisfied by way of the allotment and issuance by the Company of the Debt Conversion Shares.

4.2 Key Terms of the Debt Conversion Shares Issuance

Under the terms of the Proposed Scheme:

(a) up to 7,067,564,901 Debt Conversion Shares, such number of Shares representing 36% of the Enlarged Issued Share Capital (including the Debt Conversion Shares representing 4% of the Enlarged Issued Share Capital to be issued to the Preference Shareholders), are intended to be allotted and issued to the Unsecured Scheme Parties and Debt Securities Scheme Parties;

(b) the Debt Conversion Share Issue Price is approximately S$0.034[1] per Debt Conversion Share, which was determined based on the factors set out in Section 4.4 of this Circular;

(c) the Debt Conversion Shares shall be issued and credited as fully paid-up, be free from any and all Encumbrances, be fully transferable and shall rank *pari passu* in all respects with the existing Shares and the SMI Shares, save that they shall not rank for any dividends, rights, allotments, distributions or entitlements, the Record Date of which falls on or prior to the date of the allotment and issuance of the Debt Conversion Shares; and

(d) the Debt Conversion Shares are to be allotted and issued to the Unsecured Scheme Parties and the Debt Securities Scheme Parties in accordance with the specific allocations set out in Appendix B of this Circular.

4.3 Rationale for the proposed allotment and issuance of the Debt Conversion Shares

As mentioned in Section 2.2 of this Circular, the proposed allotment and issuance of the Debt Conversion Shares is to partially satisfy the Unsecured Claims and Debt Securities Claims pursuant to the Proposed Scheme.

4.4 Factors determining the Debt Conversion Share Issue Price

The Debt Conversion Shares are valued on the same basis as the SMI Shares. Please see Section 5.5 for further details of such valuation basis.

4.5 Use of Proceeds

The Debt Conversion Shares are to be issued as partial satisfaction of the liabilities owed to the Scheme Parties in accordance with the terms of the Scheme and accordingly, no additional cash proceeds will be raised from the issuance of the Debt Conversion Shares.

4.6 Approval in-principle from the SGX-ST

On 26 March 2019, the SGX-ST granted its in-principle approval for the listing and quotation of, *inter alia*, the Debt Conversion Shares on the Main Board of the SGX-ST, subject to the conditions set out in Section 5.7 of this Circular.

[1] The Debt Conversion Issue Price is rounded to 3 decimals points.

5. THE PROPOSED SMI INVESTMENT

5.1 Information on the Investor

Identity of SM Investments Pte. Ltd.

As of the Latest Practicable Date, SM Investments Pte. Ltd. is a consortium formed between the Salim Group led by Mr. Anthony Salim and the Medco Group led by Mr. Arifin Panigoro in the ownership percentages of 60% and 40% respectively ("**Consortium**"). Based on information provided by the Investor:

(a) The Salim Group

The Salim Group is one of the largest conglomerates in Asia which controls Pacific Light Power Pte Ltd, an 800MW power generator company in Singapore, as well as Moya Holdings Asia Ltd, a company listed on the Catalist Board of the SGX-ST, which is the largest water treatment and distribution provider in Jakarta.

The Salim Group also owns various investments around the region, including investments in (i) Metro Pacific Investments Corporation, the largest infrastructure investment management and holding company in the Philippines, with (A) investments in the country's largest electricity distributor, hospital group, toll road operator and water distributor and (B) substantial investments in major logistics and light rail operations and the largest electricity generator in the Visayas region of the Philippines; (ii) Maynilad Water Services, Inc., the largest water and wastewater services provider in Metro Manila; (iii) Meralco, the largest private sector electric distribution utility company in the Philippines; (iv) PXP Energy Corporation, an oil and gas company; (v) PT Indofood Sukses Makmur Tbk, the largest vertically integrated food company in Indonesia; (vi) PT Indoritel Makmur International Tbk, which owns stakes in (A) Indomaret, Indonesia's largest minimarket operator by number of stores, (B) Sari Roti, Indonesia's largest bread manufacturer, and (C) Fast Food Indonesia, owner of the exclusive rights to operate KFC restaurants in Indonesia with 540 stores to date; and (vii) PLDT Inc, the dominant telecommunications and digital services provider in the Philippines with the largest fixed broadband network and the most sophisticated wireless network in the country.

(b) The Medco Group

Founded by Mr. Arifin Panigoro, the Medco Group comprises, among others, PT Medco Energi Internasional Tbk ("**MEI**"), various plantations, property, and PT Bank Woori Saudara, a financial institution.

MEI is the largest publicly-listed, private sector Indonesian oil and gas company which is listed on the Indonesia Stock Exchange. It also has a stake in Indonesia's second largest copper and gold mine. MEI currently has a market capitalisation of approximately S$1.5 billion.

MEI is an integrated energy and natural resources company with significant interests in oil and gas exploration and production focused principally in Indonesia. It controls and operates the West Natuna Transportation System Pipeline which delivers gas to Singapore, and is also a major shareholder in PT Amman Mineral Nusa Tenggara, Indonesia's second largest copper and gold producer. PT Medco Power Indonesia ("**MPI**"), a subsidiary of MEI owns and operates clean energy power plants across Indonesia with combined gross capacity of 645 MW including the 330MW Sarulla geothermal power plant, the world's largest single-contract geothermal project. MPI also operates and maintains third-party power plants with a total capacity of 2,150MW. MPI will be commencing development of Riau CCPP (275 MW) and Ijen geothermal (110 MW) soon. MPI will continue to prioritise development in the sector of clean and renewable energy.

Strategy of SM Investments Pte. Ltd. following from the Proposed Restructuring

The Company understands from SM Investments Pte. Ltd. that it intends to (a) stabilise and rebuild the organisation, structure, system, process, procedure, culture and reputation of the Group (b) address and resolve immediate needs at the project company level of various subsidiaries of the Group and (c) pursue new projects with the assistance of the Consortium.

The Board is of the view that the financial strength of the Salim Group and Medco Group as well as their combined experience in water utilities, power generation and infrastructure projects will elevate the Company to a different level and open up new untapped growth opportunities for the Group.

5.2 **Key Terms of the Proposed SMI Investment**

The key terms of the Proposed SMI Investment are as follows:

(a) the Investor will be subscribing for 11,779,274,835 new Shares ("**SMI Shares**"), representing 60% of the Enlarged Issued Share Capital;

(b) the SMI Shares Issue Price is approximately S$0.034[2] per SMI Share, which was determined based on the factors set out in Section 5.5 of this Circular. The aggregate subscription amount for all the SMI Shares is S$400,000,000;

(c) the SMI Shares shall be issued and credited as fully paid-up, be free from any and all Encumbrances, be fully transferable and shall rank *pari passu* in all respects with the existing Shares and the Debt Conversion Shares, save that they shall not rank for any dividends, rights, allotments, distributions or entitlements, the Record Date of which falls on or prior to the date of the allotment and issuance of the SMI Shares; and

(d) the Investor will grant a shareholder's loan with a principal amount of S$130,000,000 to the Company ("**Investor Shareholder's Loan**") which is to be repaid on the date which is three (3) years after the date of the first drawdown of the Investor Shareholder's Loan. Interest will accrue on the Investor Shareholder's Loan at a rate of 4.5% per annum calculated on the principal amount of the loan outstanding from time to time, and is payable to the Investor on the date when repayment of the principal amount of the loan is due. All interest unpaid shall at the end of each period of three (3) months be compounded by being added to the principal amount of the Investor Shareholder's Loan then outstanding and shall bear interest accordingly.

5.3 **Use of Proceeds**

The total amount of proceeds raised from the Proposed SMI Investment shall be applied as follows: (a) full and final settlement of the cash payouts to each of the Unsecured Scheme Parties, Debt Securities Scheme Parties and Subordinated Scheme Parties amounting to approximately S$259,000,000 or about 48.9% of the total Proposed SMI Investment, (b) S$12,000,000 or about 2.3% of the total Proposed SMI Investment will be transferred as advances to Hydrochem, Hyflux Engineering and Hyflux Membrane Manufacturing to fund such group companies' payout of the amounts payable in connection with their respective proposed schemes of arrangement and (c) the working capital needs of the Group's business.

5.4 **Rationale for placing to the Investor**

The Investor was identified by the Company through a competitive process undertaken by the Company as part of the Proposed Restructuring.

[2] The SMI Share Issue Price is rounded to 3 decimals points.

The Consortium has strong track records of running successful and well-managed diverse businesses throughout Southeast Asia and other parts of the world. They also bring extensive experience in owning and operating water and power utilities, power generation and distribution assets, and oil and gas properties particularly in Southeast Asia's most complex and largest markets.

The Company understands from the Investor that examples of such infrastructure projects of the Consortium include the "build-operate-transfer" water treatment projects in Bekasi and Tangerang, Indonesia, owned by PT Moya Indonesia which are part of the Salim Group, and various energy projects completed by MEI, including Donggi Senoro LNG (valued at US$2.2 billion), Senoro Upstream Development (valued at approximately US$800 million), Sarulla Geothermal (valued at approximately US$1.5 billion), Block A Aceh Development Project (valued at approximately US$600 million), and Lematang Gas Development Project (valued at approximately US$200 million).

5.5 **Basis upon which the SMI Shares Issue Price was determined**

The SMI Shares Issue Price was agreed between the Company and the Investor on a willing-buyer and willing-seller basis pursuant to the competitive bid process conducted by the Company to pursue strategic investments in the overall business of the Group. The SMI Shares Issue Price of approximately S$0.034[3] represents a discount of approximately 83.8% to the weighted average price of approximately S$0.21 per Share for trades done on the Shares on the SGX-ST on 18 May 2018, being the Last Trading Day prior to the voluntary suspension of trading of the Shares on the Main Board of the SGX-ST.

5.6 **Conditions Precedent to the Proposed SMI Investment**

The completion of the Proposed SMI Investment is conditional upon:

(a) the in-principle approval for the Additional Listing Application being obtained from the SGX-ST and not having been revoked or amended and, where such approval is subject to conditions, such conditions for the listing and quotation of the SMI Shares and Debt Conversion Shares on the Main Board are acceptable to the Company and the Investor, and to the extent that such conditions are required to be fulfilled on or before Restructuring Effective Date, they are so fulfilled;

(b) confirmation from the SIC that the Investor and parties acting in concert with it shall not be obliged to, pursuant to or as a result of the SMI Shares Issuance, make an offer for the Company under Rule 14 of the Code;

(c) the holders of Shares approving, at an EGM, the allotment and issue of the SMI Shares and Debt Conversion Shares and the Proposed Whitewash Resolution;

(d) a full and final settlement, discharge and/or redemption of the Unsecured Financial Debt (as defined in the Restructuring Agreement) (including the medium term notes outstanding), Preference Shares, Perpetual Capital Securities, contingent debt and trade debt, through one or more of the following:

  (i) the sanction of the Proposed Scheme and the scheme of arrangement relating to Hydrochem by order of the Court and being binding in accordance with the Companies Act;

  (ii) the amendment(s) to the medium term notes issued by the Company to effect the full and final settlement, discharge and/or redemption of the medium term notes pursuant to the terms and conditions and trust deeds of the medium term notes are approved by the requisite majority of the holders of the medium term notes at a meeting duly convened and held;

[3] The SMI Shares Issue Price is rounded to 3 decimals points and is calculated on the basis of the allotment and issuance of 11,779,274,835 SMI Shares for an amount of S$400,000,000.

(iii) the amendment(s) to the Perpetual Capital Securities to effect the full and final settlement, discharge and/or redemption of the Perpetual Capital Securities pursuant to the terms and conditions and trust deeds of the Perpetual Capital Securities are approved by the requisite majority of the holders of Perpetual Capital Securities at a meeting duly convened and held; and/or

(iv) the amendment(s) to the terms of the Preference Shares to effect the full and final settlement, discharge and/or redemption of the Preference Shares pursuant to the Company's constitution are approved by the requisite majority of the holders of the Preference Shares at a meeting duly convened and held;

(e) the necessary approvals, consents and waivers being obtained from:

(i) the PUB, for the issuance of SMI Shares which will result in a change of control under Clause 21 of the Water Purchase Agreement dated 6 April 2011 entered into between PUB and Tuaspring (as may have been amended, restated and supplemented from time to time);

(ii) the NEA for the issuance of the SMI Shares which will result in a change in control under Clauses 6.2, 7.2 and/or 19 of the Waste-to-Energy Services Agreement dated 26 October 2015 entered into between the NEA and TuasOne Pte Ltd (as may be amended, restated and supplemented from time to time); and

(iii) the EMA, for the issuance of SMI Shares which will result in a change of control of the Company, if required under the Electricity Act (Chapter 89A of Singapore), or any permit or licence issued to the Group by, or any agreement with, the EMA; and

(f) if applicable, any other approvals, consents and waivers from any competent foreign or Singaporean government or governmental, administrative, regulatory, or judicial agency, authority, exchange, tribunal or entity necessary for Completion due to any change in applicable laws (including the enactment of any new applicable laws) being obtained.

As at the Latest Practicable Date, the Company is of the view that the Conditions Precedent set out in Sections 5.6(a), (b) and (e)(i) have been fulfilled.

5.7 **SGX-ST Approval**

An application was made by the Company to the SGX-ST on 22 February 2019 for, *inter alia*, the listing and quotation of the SMI Shares and Debt Conversion Shares on the Main Board ("**Additional Listing Application**").

On 26 March 2019, the SGX-ST granted in-principle approval for the listing and quotation of the SMI Shares and the Debt Conversion Shares on the Main Board of the SGX-ST.

The in-principle approval from the SGX-ST is subject to the following:

(a) Compliance with the SGX-ST's listing requirements;

(b) Shareholder's approval for the SMI Shares Issuance, Debt Conversion Shares Issuance and the Proposed Whitewash Resolution;

(c) A written undertaking from the Company that it will comply with Rule 704(30) and Rule 1207(20) of the Listing Manual in relation to the use of proceeds from the proposed issuance of Shares and where proceeds are to be used for working capital purposes, the Company will disclose a breakdown with specific details on the use of proceeds for working capital in the Company's announcements on use of proceeds and in the annual report;

(d) A written undertaking from the Company that it will comply with Rule 803 of the Listing Manual; and

(e) A written confirmation from the Company that it will not issue the new Shares to persons prohibited under Rule 812(1) of the Listing Manual.

5.8 **No Indication of Merits**

The in-principle approval granted by the SGX-ST for the listing and quotation of the SMI Shares and Debt Conversion Shares on the Main Board is not to be taken as an indication of the merits of the Preference Shares Buyback, the Debt Conversion Shares Issuance, the Proposed SMI Investment, the Proposed Whitewash Resolution the Debt Conversion Shares, the SMI Shares or the Company and/or its Subsidiaries.

5.9 **Updates on the Proposed SMI Investment**

The Investor has written to the Company on various occasions since 7 March 2019 to make certain assertions in connection with the Restructuring Agreement (collectively, the "**Investor Notices**"). The key assertions made in the Investor Notices are as follows:

(a) a prescribed occurrence under the Restructuring Agreement relating to Tuaspring "ceas[ing] or threaten[ing] to cease for any reason to carry on its business in the usual and ordinary course" has arisen based on a notice from the PUB dated 5 March 2019 alleging certain defaults by Tuaspring under the water purchase agreement entered into between PUB and Tuaspring dated 6 April 2011 and requesting that Tuaspring remedies such defaults by a specific date. The Investor further asserts that such alleged prescribed occurrence must be cured by 1 April 2019;

(b) the Investor has asserted that it does not agree to the terms of the proposed schemes 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 Precedent under the Restructuring Agreement will not be satisfied (even if the proposed schemes have been sanctioned);

(c) a second prescribed occurrence has arisen under the Restructuring Agreement relating to Tahlyat Mylah Magtaa SPA "ceas[ing] or threaten[ing] to cease for any reason to carry on its business in the usual and ordinary course" based on a notice from Sonatrach SpA and L'Algerienne des Eaux dated 25 December 2018 alleging certain defaults under the concession agreement for the Magtaa desalination plant in Algeria and threatening to terminate such concession agreement in the event that these alleged defaults are not cured by 8 February 2019. The Investor further asserts that such alleged prescribed occurrence must be cured by 8 April 2019.

The Company disagrees with the Investor's assertions in the Investor Notices. For more details on the Company's position on such Investor's assertions, please refer to Appendix C to this Circular.

The Company has tried but has been unable to meaningfully engage with the Investor on such assertions. That said, as the Restructuring Agreement remains in force and the Investor has not stated that it will resile from the Proposed SMI Investment, the Company has taken and will continue to take steps to fulfil its contractual obligations under the Restructuring Agreement, including by taking steps to convene this EGM.

In view of the above (and particularly, the Investor Notices), Shareholders should note that there is no assurance that the Proposed SMI Investment will be completed in the manner currently contemplated under the Restructuring Agreement or at all.

For further details on the Investor Notices and the Company's position on the Investor's assertions in such Investor Notices, please see Appendix C to this Circular.

6. THE PROPOSED WHITEWASH RESOLUTION

6.1 General Offer Requirement Under the Code

Pursuant to Rule 14.1 of the Code, except with the SIC's consent, where any person acquires, whether by a series of transactions over a period of time or not, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights of a company, such person will be required to make a mandatory general offer for all the shares not already owned or controlled by him.

As the SMI Shares Issuance will result in the Investor and its concert parties holding and/or acquiring more than 30% of the voting rights of the Company, the Investor and its concert parties would be required to make a mandatory general offer for the Shares not already held by it under Rule 14.1 of the Code, unless such requirement is waived.

6.2 Confirmation from the SIC

The SIC was consulted on the above and confirmed on 25 March 2019 that the Investor does need not make a general offer for the Company as a result of or pursuant to the SMI Shares Issuance, subject to the following conditions (collectively, the "**SIC Conditions**"):

(a) a majority of the Shareholders approving at the EGM the Proposed Whitewash Resolution by way of a poll to waive their rights to receive a general offer from the Investor;

(b) the Proposed Whitewash Resolution is separate from other resolutions to be tabled at the EGM;

(c) the Concert Party Group, and parties not independent of it, abstain from voting on the Proposed Whitewash Resolution;

(d) the Concert Party Group did not acquire or are not to acquire any Shares in the Company or instruments convertible into and options in respect of Shares (other than pursuant to the SMI Shares Issuance):

  (i) during the period between the announcement of the Proposed SMI Investment and the date on which Independent Shareholders' approval is obtained for the Proposed Whitewash Resolution; and

  (ii) in the six (6) months prior to the announcement of the Proposed SMI Investment, but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Proposed SMI Investment;

(e) the Company appoints an independent financial advisor to advise the Shareholders on the Proposed Whitewash Resolution;

(f) the Company sets out clearly in this Circular:

  (i) details of the Proposed SMI Investment and the Debt Restructuring Exercise;

  (ii) the dilution effect of the Proposed SMI Investment and Debt Restructuring Exercise to the Existing Shareholders;

  (iii) the number and percentage of voting rights in the Company as well as the number of instruments convertible into, rights to subscribe for and options in respect of Shares held by the Concert Party Group as at the Latest Practicable Date;

  (iv) the number and percentage of voting rights to be held by the Investor upon completion of the Proposed SMI Investment;

(v) specific and prominent reference to the fact that the SMI Shares Issuance will result in the Investor carrying over 49% of the voting rights of the Company and the fact that the Concert Party Group will be free to acquire further Shares without incurring any obligation under Rule 14 to make a mandatory general offer; and

(vi) that Independent Shareholders, by voting for the Proposed Whitewash Resolution, are waiving their rights to receive a general offer from the Investor at the highest price paid by the Concert Party Group for the Shares in the past 6 months preceding the commencement of the offer;

(g) this Circular states that the Proposed Whitewash Waiver is subject to the SIC Conditions stated in paragraphs (a) to (f) above;

(h) the Company obtains the SIC's approval in advance for those parts of this Circular that refer to the Proposed Whitewash Resolution; and

(i) to rely on the Proposed Whitewash Resolution, the approval of the Proposed Whitewash Resolution must be obtained within three (3) months of the date of the Proposed Whitewash Waiver and the Proposed SMI Investment must be completed within three (3) months of the approval of the Proposed Whitewash Resolution.

The Company understands that the Investor does not intend to, nor wishes to be subject to the obligation to, make a mandatory general offer as a result of or pursuant to the SMI Shares Issuance. As such, in accordance with the SIC Condition set out in Section 6.2(a) above, the Company will be seeking the approval of the Shareholders of the Proposed Whitewash Resolution at the EGM.

As at the Latest Practicable Date, save for the SIC Conditions set out in Sections 6.2(a), (b), (c) and (i) above, all the other SIC Conditions have been satisfied.

6.3 **Proposed Whitewash Resolution**

The Independent Shareholders are requested to vote, by way of poll, on the Proposed Whitewash Resolution set out as an ordinary resolution in the Notice of EGM, waiving their rights to receive a mandatory general offer from the Investor for the SMI Shares it will receive under the SMI Shares Issuance.

Independent Shareholders should note that:

(a) by voting in favour of the Proposed Whitewash Resolution, they will be waiving their rights to receive a mandatory general offer from the Investor for the SMI Shares it will receive under the Proposed SMI Investment at the highest price paid or agreed to be paid by the Concert Party Group for the Shares in the six (6) months preceding the announcement of the Proposed SMI Investment, being 18 October 2018;

(b) approval of the Proposed Whitewash Resolution is a condition precedent to completion of the Proposed SMI Investment (see Section 5.6 of this Circular). Accordingly, in the event that the Proposed Whitewash Resolution is not passed by the Independent Shareholders, the Proposed SMI Investment (and consequently, the Proposed Restructuring) will not take place; and

(c) the Proposed SMI Investment will result in the Investor holding SMI Shares carrying over 49% of the voting rights of the Company on Completion, and that the Investor could thereafter acquire further new Shares without incurring any obligation under Rule 14 of the Code to make a general offer.

6.4 **Interests of the Concert Party Group**

As at the Latest Practicable Date, the Company understands that the Concert Party Group does not hold any voting rights in the Company and instruments convertible into, rights to subscribe for and options in respect of Shares.

7. PRO FORMA SHARE CAPITAL AND FINANCIAL EFFECTS OF THE PROPOSED RESTRUCTURING

7.1 Pro Forma Financial Effects

The pro forma financial effects of the Proposed Restructuring in the various scenarios are for illustrative purposes only and do not necessarily reflect the actual results and financial position of the Group following the completion of the Proposed Restructuring.

The pro forma financial effects of the Proposed Restructuring on the share capital of the Company, NTA, profit/(loss) and gearing of the Group have been prepared based on the pro forma unaudited consolidated financial statements of the Group for the nine (9) months ended 30 September 2018 ("**9M2018**") ("**9M2018 Financial Statements**") and the bases and assumptions set out in Section 7.2 of this Circular.

For more information on the unaudited financial statements of the Company for its second quarter of the financial year ended 30 June 2018 and its third quarter of the financial year ended 30 September 2018, please refer to the Company's announcement which will be made available on SGXNET.

7.2 Bases and assumptions

For the purposes of illustration, the pro forma financial effects of the Proposed Restructuring on the share capital of the Company, NTA, profit/(loss) and gearing of the Group are computed based on the following bases and assumptions:

(a) the 9M2018 Financial Statements have been prepared on a going concern basis on the assumption that the Proposed Restructuring will be successful;

(b) the schemes of arrangement in relation to Hydrochem, Hyflux Engineering and Hyflux Membrane Manufacturing have been completed;

(c) all claims by trade creditors against Hydrochem, Hyflux Engineering and Hyflux Membrane Manufacturing which amount to less than S$5,000 will be paid in full;

(d) in addition to the Investor Shareholder's Loan, the loans and borrowings of the Group after the completion of the Proposed Restructuring include project finance loans in the subsidiaries;

(e) following the completion of the Proposed SMI Investment, there will be a change in the control of the Company. The carrying value of the deferred tax assets in the 9M2018 Financial Statements is based on the assumption that the Inland Revenue Authority of Singapore will accept the relevant applications to be made by the companies of the Group incorporated in Singapore for a waiver of the shareholding test in respect of the utilisation of tax losses relating to such deferred tax assets;

(f) the pro forma NTA per Share as at 30 September 2018 has been prepared on the assumption that the Proposed Restructuring had been completed on 30 September 2018;

(g) the pro forma profit/(loss) per Share has been prepared on the assumption that the Proposed Restructuring had been completed on 30 September 2018; and

(h) the pro forma gearing as at 30 September 2018 has been prepared on the assumption that the Proposed Restructuring had been completed on 30 September 2018.

No audit, review or agreed upon procedures was undertaken by the Group's external auditor in respect of these pro forma consolidated financial information and pro forma financial effects.

7.3 Pro Forma Share Capital

Assuming the successful completion of the Proposed Restructuring, the capital structure of the Company immediately after completion of the Proposed Restructuring is envisaged to be as follows:

	As at the Latest Practicable Date	After the completion of the Debt Conversion Shares Issuance and the SMI Shares Issuance
Issued and paid-up Share capital (S$'million)	128.8[1]	768.8
Number of Shares	785,284,989[2]	19,632,124,725
Issued and paid-up Preference Share capital (S$'million)	400.0	–
Number of Preference Shares	4,000,000	–

Notes:

(1) The issued and paid-up Share capital excludes the treasury shares held by the Company.

(2) As at the Latest Practicable Date, the Company has 785,284,989 Shares which excludes 79,246,000 Shares that are held by the Company as treasury shares.

7.4 Pro Forma NTA

For illustrative purposes only and assuming that the Proposed Restructuring had been completed on 30 September 2018, being the end of 9M2018, the effect of the Proposed Restructuring on the NTA per Share as at 30 September 2018 is as follows:

	As at 30 September 2018	After the completion of the Proposed Restructuring
Pro forma NTA of the Group attributable to the Shareholders (S$'million)	(432.6)	815.3
Number of Shares	785,284,989	19,632,124,725
Pro forma NTA per Share (cents) [1]	(55.1)	4.2

Notes:

(1) Pro forma NTA per Share is computed based on the pro forma NTA of the Group attributable to the Shareholders of the Company divided by the number of Shares.

7.5 Pro forma Profit/(loss)

For illustrative purposes only and assuming that the Proposed Restructuring had been completed on 30 September 2018, the effect of the Proposed Restructuring on the pro forma profit/(loss) per Share for 9M2018 is as follows:

	For 9M2018	After the completion of the Proposed Restructuring
Pro forma profit/(loss) of the Group attributable to the Shareholders (S$'million)	(1,118.9)	(407.5)
Weighted average number of Shares	785,284,989	19,632,124,725
Pro forma profit/(loss) per Share (cents) [(1)]	(142.5)	(2.1)

Notes:

(1) Pro forma profit/(loss) per Share is computed based on the pro forma profit/(loss) of the Group attributable to the Shareholders of the Company divided by the weighted average number of Shares.

7.6 Pro forma Gearing

For illustrative purposes only and assuming that the Proposed Restructuring had been completed on 30 September 2018, being the end of 9M2018, the effect of the Proposed Restructuring on the pro forma gearing as at 30 September 2018 is as follows:

	As at 30 September 2018	After the completion of the Proposed Restructuring
Total debt (S$'million)	1,568.8	733.3
Total equity (S$'million)	(136.0)	1,111.9
Gearing ratio[(1)]	nm[(2)]	0.7

Notes:

(1) Gearing ratio is computed as total debt divided by total equity.

(2) n.m. – Not meaningful.

8. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

8.1 The Directors and Substantial Shareholders of the Company and their respective interests in the issued share capital of the Company, based on the Register of Directors' Shareholdings and the Register of Substantial Shareholders as at the Latest Practicable Date, as well as the number of share options they hold pursuant to the share option scheme of the Company established on 27 April 2011 are set out in the table below:

	Direct Interest	(%)	Deemed Interest	(%)	Total Interest	(%)
Directors						
Ordinary Shares[1]						
Olivia Lum Ooi Lin	267,351,211	34.0451	–	–	267,351,211	34.0451
Teo Kiang Kok	–	–	375,000[4]	0.0477	375,000	0.0477
Gay Chee Cheong	3,000,000	0.3820	–	–	3,000,000	0.3820
Christopher Murugasu	1,095,468	0.1395	180,000[5]	0.0229	1,275,468	0.1624
Preference Shares[2]						
Olivia Lum Ooi Lin	8,020	0.2005	–	–	8,020	0.2005
Teo Kiang Kok	3,000	0.0750	–	–	3,000	0.0750
Christopher Murugasu	2,880[6]	0.0720	–	–	2,880	0.0720
Perpetual Capital Securities[3]						
Olivia Lum Ooi Lin	1,000,000	0.2000	–	–	1,000,000	0.2000
Teo Kiang Kok	200,000	0.0400	–	–	200,000	0.0400
Gay Chee Cheong	–	–	500,000[7]	0.1000	500,000	0.1000
Christopher Murugasu	400,000	0.0800	–	–	400,000	0.0800
Simon Tay	500,000	0.1000	–	–	500,000	0.1000
Gary Kee Eng Kwee	–	–	500,000[8]	0.1000	500,000	0.1000
Lau Wing Tat	50,000	0.0100	–	–	50,000	0.0100
Share Options						
Olivia Lum Ooi Lin	8,598,000	–	–	–	–	–
Teo Kiang Kok	450,000	–	–	–	–	–
Gay Chee Cheong	450,000	–	–	–	–	–
Lee Joo Hai	500,000	–	–	–	–	–
Christopher Murugasu	350,000	–	–	–	–	–
Simon Tay	350,000	–	–	–	–	–
Gary Kee Eng Kwee	600,000	–	–	–	–	–
Lau Wing Tat	300,000	–	–	–	–	–
Substantial Shareholders						
Olivia Lum Ooi Lin	267,351,211	34.0451	–	–	267,351,211	34.0451

Notes:

(1) The percentage is calculated based on 785,284,989 issued Shares excluding 79,246,000 Shares held by the Company as treasury shares as at the Latest Practicable Date.

(2) The percentage is calculated based on 4,000,000 issued Preference Shares as at the Latest Practicable Date.

(3) The percentage is calculated based on the principal amount of Perpetual Capital Securities as at the Latest Practicable Date, amounting to $500,000,000.

(4) Teo Kiang Kok is deemed interested in 375,000 Shares held by Citibank Nominees Singapore Pte Ltd.

(5) Christopher Murugasu is deemed interested in 180,000 Shares held by his spouse, Bernardette Oei Lian Hua.

(6) The direct interest of Christopher Murugasu indicated above includes 1,880 Preference Shares which he holds in his capacity as executor and trustee for the estate of Ms Tang Hoong Yang nee Hong Sau Ching, decreased.

(7) Gay Chee Cheong is deemed interested in 500,000 Perpetual Capital Securities held by Raffles Nominees (Pte) Ltd.

(8) Gary Kee Eng Kwee is deemed interested in 500,000 Perpetual Capital Securities held by DBS Nominees (Private) Limited.

Save as disclosed herein, none of the Directors or Substantial Shareholders of the Company has any interest (other than their respective shareholdings in the Company), direct or indirect, in the Proposed Restructuring set out in this Circular.

8.2 The Directors will be giving up their entitlements under the Proposed Scheme (including the cash payout and Debt Conversion Shares which they are entitled to receive as holders of the Perpetual Capital Securities and/or Preference Shareholders under the Proposed Scheme) as well as their existing Shares in the Company as of the Latest Practicable Date (save for the deemed interest of Christopher Murugasu of 180,000 Shares held by his spouse, Bernardette Oei Lian Hua, and the direct interest of Christopher Murugasu of 1,880 Preference Shares held by him as trustee for the estate of Ms Tang Hoong Yang nee Hong Sau Ching, deceased, which are Shares that do not belong to him and therefore excluded) to the Debt Securities Scheme Parties.

9. INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT DIRECTORS

9.1 Appointment of IFA

Stirling Coleman Capital Limited has been appointed to advise the relevant Independent Directors for purposes of making the recommendation to Independent Shareholders in respect of the Proposed Whitewash Resolution.

Shareholders should consider carefully the recommendation of the relevant Independent Directors and the opinion of the IFA before deciding whether or not to vote in favour of Ordinary Resolution 4, being the Proposed Whitewash Resolution, to be tabled at the EGM.

9.2 Opinion of IFA

After giving due consideration to, among other things, the key factors set out in the IFA Letter, and based on the IFA's analysis and after having considered carefully the information available to the IFA, the IFA is of the opinion that the Proposed Whitewash Resolution, when considered in the context of the Proposed SMI Investment (which terms are fair and reasonable), is not prejudicial to the interests of Independent Shareholders (the "**IFA Opinion**"). Accordingly, in this regard, the IFA advises the Independent Directors to recommend that the Independent Shareholders vote in favour of the Proposed Whitewash Resolution.

Please also refer to Appendix A of this Circular for details.

10. DIRECTORS' RECOMMENDATIONS

10.1 Ordinary Resolution 1

With respect to Ordinary Resolution 1 to be proposed at the EGM, the Directors, having considered, *inter alia*, the terms of and rationale for the Preference Shares Buyback, are of the opinion that the Preference Shares Buyback is in the best interests of the Company. Accordingly, the Directors recommend that the Shareholders vote in favour of the ordinary resolution relating thereto to be proposed at the EGM.

10.2 **Ordinary Resolution 2**

With respect to Ordinary Resolution 2 to be proposed at the EGM, the Directors, having considered, *inter alia*, the terms of and rationale for the Debt Conversion Shares Issuance, are of the opinion that the Debt Conversion Shares Issuance is in the best interests of the Company. Accordingly, the Directors recommend that Shareholders vote in favour of the ordinary resolution relating thereto to be proposed at the EGM.

10.3 **Ordinary Resolution 3**

With respect to Ordinary Resolution 3 to be proposed at the EGM, the Directors, having considered, *inter alia*, the terms of and rationale for the Proposed SMI Investment, are of the opinion that the Proposed SMI Investment is in the best interests of the Company, as it would enable the Group to improve its operations and create value for all stakeholders. Accordingly, the Directors recommend that Shareholders vote in favour of the ordinary resolution relating thereto to be proposed at the EGM.

10.4 **Ordinary Resolution 4**

With respect to the Proposed Whitewash Resolution to be proposed at the EGM, the Directors, having considered, *inter alia*, the rationale for the SMI Shares Issuance and the IFA Opinion, recommend the Shareholders vote in favour of the Proposed Whitewash Resolution to be proposed at the EGM.

11. EXTRAORDINARY GENERAL MEETING

The EGM, notice of which is set out from page N-1 of the Circular, will be held at Hyflux Innovation Centre, 80 Bendemeer Road, Singapore 339949 on 15 April 2019 at 2.00 p.m. (Singapore time) for the purpose of considering and, if thought fit, passing with or without modifications, the EGM Resolutions.

12. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who are unable to attend the EGM and wish to appoint a proxy to attend and vote at the EGM on their behalf, should complete, sign and return the attached Proxy Form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to arrive at the Company's registered office at Hyflux Innovation Centre, 80 Bendemeer Road, Singapore 339949, not less than 72 hours before the time fixed for the EGM. The appointment of a proxy by a Shareholder does not preclude him from attending and voting in person at the EGM if he so wishes. In such event, the relevant Proxy Form will be deemed to be revoked. A proxy does not need to be a Shareholder.

13. CONSENTS

The IFA has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of (a) its name and all references thereto, and (b) the IFA Letter, in the form and context in which they are included in this Circular. The IFA Letter was prepared for the purpose of incorporation into this Circular.

EY has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of (i) its name and all references thereto, and (ii) the EY Liquidation Analysis Report, in the form and context in which they are included in this Circular. The EY Liquidation Analysis Report was prepared for the purpose of incorporation into this Circular.

None of the IFA and EY has a material interest, whether direct or indirect in the Shares, the shares of other Group companies or has a material economic interest, whether direct or indirect, in the Group, including an interest in the success of the Proposed Restructuring.

14. RESPONSIBILITY STATEMENT

The IFA Letter (set out in Appendix A to this Circular) is the responsibility of the IFA.

Save for the above, the Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Restructuring, the Preference Shares Buyback, the Debt Conversion Shares Issuance, the Proposed SMI Investment and the Proposed Whitewash Resolution, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading.

In respect of the IFA Letter, the sole responsibility of the Directors has been to ensure that the facts stated therein with respect to the Group are, to the best of their knowledge and belief, fair and accurate in all material respects.

Where information in this Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Circular in its proper form and context.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the company at 80 Bendemeer Road, Hyflux Innovation Centre, Singapore 339949 during normal business hours up to 26 June 2019:

(a) the Restructuring Agreement;

(b) the Shareholder's Loan Agreement;

(c) the Scheme Document; and

(d) IFA Letter.

LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS OF HYFLUX LTD

STIRLING COLEMAN CAPITAL LIMITED
(Company Registration No.: 200105040N)

4 Shenton Way #07-03
SGX Centre 2
Singapore 068807

29 March 2019

To: The Independent Directors of Hyflux Ltd (the "**Company**")
(who are deemed to be independent in respect of the Proposed Whitewash Resolution, namely all of the Directors)

Dear Sirs

THE PROPOSED WHITEWASH RESOLUTION FOR THE WAIVER BY INDEPENDENT SHAREHOLDERS OF THEIR RIGHTS TO RECEIVE A MANDATORY GENERAL OFFER FROM THE INVESTOR (AS DEFINED HEREIN) AND ITS CONCERT PARTIES (THE "PROPOSED WHITEWASH RESOLUTION")

*For the purpose of this letter, capitalised terms not otherwise defined shall have the meaning given to them in the circular dated 29 March 2019 to the Shareholders of the Company (the "**Circular**").*

1 INTRODUCTION

1.1 The Proposed Restructuring

On 22 May 2018, the Company announced that applications had been made to the Court pursuant to Section 211B(1) of the Companies Act to commence a court supervised process to reorganise the liabilities and businesses of the Company and certain identified subsidiaries, including, *inter alia*, Hydrochem (S) Pte Ltd ("**Hydrochem**"), Hyflux Engineering Pte Ltd ("**Hyflux Engineering**") and Hyflux Membrane Manufacturing (S) Pte. Ltd. ("**Hyflux Membrane Manufacturing**") (the "**Debt Restructuring Exercise**").

In connection with the Debt Restructuring Exercise, the Company intends to enter into a compromise and arrangement with the Scheme Parties pursuant to Section 210 of the Companies Act for the full and final satisfaction and discharge of all Unsecured Claims, Debt Securities Claims and Subordinated Claims ("**Proposed Scheme**"). The Proposed Scheme contemplates, *inter alia*:

(a) the cancellation of all the Preference Shares, to be implemented by way of a purchase by the Company of the Preference Shares pursuant to the Preference Shares Buyback; and

(b) the allotment and issuance of the Debt Conversion Shares to the Unsecured Scheme Parties and Debt Securities Scheme Parties (the "**Debt Conversion Shares Issuance**") as partial settlement of the liabilities owed to them.

In addition, the Company conducted a competitive bid process to pursue strategic investments in the overall business of the Group as part of the Proposed Restructuring. The bid process involved seeking interest from various potential investors and having considered the various proposals submitted by potential investors, the Company announced on 18 October 2018 that it had entered into a restructuring agreement ("**Restructuring Agreement**") with SM Investments Pte. Ltd. (the "**Investor**") pursuant to which the Investor would, *inter alia*:

(a) subscribe for such number of Shares representing 60% of the Enlarged Issued Share Capital ("**SMI Shares**") for an aggregate subscription amount of S$400,000,000 (the "**SMI Shares Issuance**"); and

(b) grant the Company a loan of a principal amount of S$130,000,000,

(collectively, the "**Proposed SMI Investment**").

In the 18 October Announcement, the Company also announced that the Investor had granted to the Company a loan of a principal amount of S$30,000,000 for the interim working capital requirement of the Group for the period prior to completion of the Proposed SMI Investment occurring under the terms and subject to the conditions of a loan agreement ("**DIP Loan**"). As at the Latest Practicable Date, the DIP Loan has not been utilised.

1.2 The Proposed Whitewash Resolution

Pursuant to Rule 14.1 of the Code, except with the SIC's consent, where any person acquires, whether by a series of transactions over a period of time or not, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights of a company, such person will be required to make a mandatory general offer for all the shares not already owned or controlled by him.

As the SMI Shares Issuance will result in the Investor holding and/or acquiring more than 30% of the voting rights of the Company, the Investor is required to make a mandatory general offer for the Shares not already held by it under Rule 14.1 of the Code, unless such requirement is waived.

The SIC ruled on 25 March 2019 that the Investor will not be required to make a mandatory general offer for the Company as a result of or pursuant to the SMI Shares Issuance, subject to the fulfilment of the SIC Conditions, which include, *inter alia*, the Independent Shareholders approving the Proposed Whitewash Resolution at the EGM and the appointment of an independent financial adviser ("**IFA**") to advise on the Proposed Whitewash Resolution.

1.3 Appointment of IFA

Stirling Coleman Capital Limited ("**Stirling Coleman**") has been appointed as the IFA to advise the Independent Directors for the purpose of making their recommendation to the independent Shareholders, being entitled Shareholders other than (a) the Investor and (b) parties not independent of the Investor (the "**Independent Shareholders**") in respect of the Proposed Whitewash Resolution.

This IFA Letter is addressed to the Independent Directors and sets out, *inter alia*, our evaluation and opinion on whether the Proposed Whitewash Resolution is prejudicial to the interests of the Independent Shareholders. We have considered the Proposed Whitewash Resolution in the context of the Proposed SMI Investment, including whether the terms of the Proposed SMI Investment are fair and reasonable.

2 TERMS OF REFERENCE

We have prepared this IFA Letter for the use of the Independent Directors in connection with their consideration of the Proposed Whitewash Resolution and their advice and recommendation to the Independent Shareholders in respect thereof. The recommendations made to the Independent Shareholders in relation to the Proposed Whitewash Resolution remains the responsibility of the Independent Directors.

We were not involved in any aspect of the negotiations in relation to the Debt Restructuring Exercise and the Proposed SMI Investment (collectively, the "**Proposed Restructuring**") and the Proposed Whitewash Resolution, nor were we involved in the deliberations leading to the decision on the part of the Directors to propose the Proposed Restructuring and the Proposed Whitewash Resolution. We shall not be obliged to solicit any indication of interest from any third party with respect to any other proposal for transactions similar to or in lieu of the Proposed Restructuring and the Proposed Whitewash Resolution. In that regard, we shall not be addressing the relative

merits of the Proposed Restructuring and the Proposed Whitewash Resolution as compared to any alternative proposal previously considered by the Company or which otherwise may be available to the Company currently or in the future. Such comparison and consideration remain the responsibility of the Directors.

We have confined our evaluation to the financial terms of the Proposed SMI Investment and the Proposed Whitewash Resolution and our terms of reference do not require us to evaluate or comment on the risks and/or merits of the Proposed Restructuring and the Proposed Whitewash Resolution or the future financial performance or prospects of the Company and its subsidiaries (the "**Group**") and we have not made such evaluation or comment. Such evaluation or comment, if any, remains the responsibility of the Directors and the management of the Company, although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion as set out in this IFA Letter. Accordingly, it is not within our scope to express a view on the future growth prospects and earnings potential of the Group, or express any view as to the prices at which the Shares may trade after the completion of the Proposed Restructuring and the Proposed Whitewash Resolution.

In formulating our opinion and recommendation, we have held discussions with the Directors and the management of the Company and have examined publicly available information and we have relied to a considerable extent on the information set out in the Circular, other public information collated by us and the information, representations, opinions, facts and statements provided to us, whether written or verbal, by the Company and its other professional advisers. We have relied upon the assurance of the Directors and the management of the Company that all statements of fact, opinion and intention made by the Directors and the management of the Company in the Circular have been reasonably made after due and careful enquiry. We have not independently verified such information but have made such reasonable enquiries and exercised our judgement as we deemed appropriate on such information and have no reason to doubt the accuracy or reliability of the information used for the purposes of our evaluation. Accordingly, we cannot and do not expressly and impliedly represent or warrant, and do not accept any responsibility for the accuracy, or completeness or adequacy of such information or the manner in which it has been classified or presented which may have been included in the Circular or announced by the Company.

The information which we relied on were based upon market, economic, industry, monetary and other conditions prevailing as at the Latest Practicable Date and such conditions and information may change significantly over a relatively short period of time. We assume no responsibility to update, revise or reaffirm our recommendations in light of any subsequent developments after the Latest Practicable Date that may affect our recommendations contained herein. Shareholders should further take note of any announcements relevant to their consideration of the Proposed Whitewash Resolution, which may be released after the Latest Practicable Date.

In rendering our services, we have not had regard to the specific investment objectives, financial situation, tax position, tax status, risk profiles or particular needs and constraints or circumstances of any individual Shareholders. As each Shareholder would have different investment objectives and profiles, we would recommend that any individual Shareholder who may require specific advice in the context of his specific investment objectives or portfolio should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

The Company has been separately advised by its own advisers in the preparation of the Circular (other than this IFA Letter). We have had no role or involvement and have not provided any advice, financial or otherwise, whatsoever in the preparation, review and verification of the Circular (other than this IFA Letter). Accordingly, we take no responsibility for and express no views, expressed or implied, on the contents of the Circular (other than this IFA Letter).

Our recommendation in respect of the Proposed Whitewash Resolution as set out in Section 9 of the Circular should be considered in the context of the entirety of this IFA Letter and the Circular. Where information in this IFA Letter has been extracted from the Circular, Shareholders are urged to read the corresponding sections in the Circular carefully.

3 THE PROPOSED RESTRUCTURING

Information on the Proposed Restructuring is set out in **Section 2** of the Circular. We have reproduced certain key infomation below:

3.1 Background of the Proposed Restructuring

"The excess power generation capacity in Singapore, coupled with the weak demand in the Singapore market, resulted in depressed electricity prices, resulting in significant losses in the Company's subsidiaries, Tuaspring and Hyflux Energy Pte Ltd. This has in turn adversely impacted the Group's financial performance since the power plant commenced operation in 2016. The impact of the weak Singapore power market, as evidenced by an increase in the reserve margin projected by the EMA, drove the Group to full year losses in 2017, with the loss continuing into the first quarter of 2018.

This was compounded by challenges on the repatriation of monies into Singapore from its overseas subsidiaries, particularly in relation to subsidiaries in China and Oman wherein there were cash and cash equivalents of S$46.6 million and S$44.7 million respectively as at 31 March 2018. In the second quarter of 2018, there were increasing requests for monies to be placed in fixed deposit accounts for performance bonds to be issued or renewed in support of the existing projects.

To address these challenges, preserve value and maintain a sustainable capital structure, the Board took the view that a transparent and court supervised reorganisation process was in the best interests of all of the Company's stakeholders and hence applied to the Court to commence the Debt Restructuring Exercise."

3.2 Rationale for the Proposed Restructuring

"The Proposed Restructuring is intended to serve a dual function:

(a) comprehensively restructure the Group's financial obligations. The Proposed Restructuring allows the Company to comprehensively restructure its obligations with the Scheme Parties in a way that would significantly reduce the financial burden on the Company and alleviate pressures faced by the Company on its cash flow; and

(b) enable the Group to seek fresh capital for deployment in areas for growth and create value for its stakeholders. In this regard, the Company has been pursuing potential strategic investments for the Group. In line with this business objective, the Proposed Restructuring will enable the Company to maximise the value of the Group for both its creditors and Shareholders, and to ensure the long-term sustainability and competitiveness of the Group with a view to deliver value to its Shareholders and other stakeholders."

3.3 The Debt Restructuring Exercise

"The Debt Restructuring Exercise will be implemented as follows.

(a) *the Company had filed an application to the Court to, inter alia, propose the Proposed Scheme with the Scheme Parties pursuant to Section 210(1) of the Companies Act. On 21 February 2019, the Court made certain orders including, inter alia, that (i) the Company be at liberty to convene a meeting of the Scheme Parties (each a "**Scheme Meeting**") within three (3) months or such other period as the Court may order) from 21 February 2019 for the purposes of approving the Proposed Scheme; and (ii) in the event that the Proposed*

Scheme is approved at the Scheme Meetings, pursuant to Section 210(4) of the Companies Act, the Company be at liberty to apply for an order of Court approving the Proposed Scheme, with such modifications proposed and approved at the Scheme Meetings (if any), so as to be binding on the Company and the Scheme Parties.

(b) Pursuant to the Proposed Scheme, with effect on and from the Restructuring Effective Date:

(i) each Unsecured Scheme Party releases all of its rights, title and interest in the Unsecured Claims in consideration for its entitlements under the Proposed Scheme;

(ii) each holder of Perpetual Capital Securities irrevocably agrees that the distribution of his or her entitlements under the Proposed Scheme by the Company constitutes a purchase of his or her Perpetual Capital Securities including his or her rights and privileges attached to such Perpetual Capital Securities;

*(iii) each holder of Preference Shares irrevocably agrees that the distribution of his or her entitlements under the Proposed Scheme by the Company constitutes a purchase of his or her Preference Shares pursuant to the Companies Act including his or her rights and privileges attached to such Preference Shares (the "**Preference Shares Buyback**"); and*

(iv) each Subordinated Scheme Party releases all of its rights, title and interest in the Subordinated Claims in consideration for its entitlements under the Proposed Scheme.

(c) In consideration for the above, the Scheme Parties will receive (in aggregate):

(i) approximately S$259,000,000 in cash payout; and

(ii) up to 7,067,564,901 new Shares, representing 36% of the Enlarged Issued Share Capital."

Further information on the Debt Restructuring Exercise (including the amounts owing to each of the Unsecured Scheme Parties, Debt Securities Scheme Parties and Subordinated Scheme Parties and the proposed payouts to such parties) is set out in **Appendix B** of the Circular. Shareholders are advised to read the information set out therein carefully.

3.4 The Preference Shares Buyback

The Proposed Scheme contemplates the Preference Shareholders releasing all their rights, title and interest in the Preference Shares in exchange for the amounts listed below. The Preference Shares Buyback is a mechanical step to effect the release and the formal cancellation of the Preference Shares. Information on the Preference Shares Buyback is set out in **Section 3** of the Circular. We have reproduced certain key infomation below:

"(a) Maximum number of Preference Shares and Purchase Price

The maximum number of Preference Shares which may be purchased by the Company pursuant to the Preference Shares Buyback is 4,000,000 Preference Shares, which represents 100% of the issued Preference Share capital of the Company. Under Section 76B(3D) of the Companies Act, there is no limit on the number of redeemable preference shares that may be purchased by the Company. The share buyback rule in Rule 882 of the Listing Manual is not applicable to the Preference Shares Buyback.

The purchase price to be paid by the Company for the Preference Shares will be an amount equivalent to approximately S$38,700,000, being the sum of: (a) the cash payout of approximately S$12,000,000 to the Preference Shareholders under the Proposed Scheme; and (b) the implied value of the new Shares representing 4% of the Enlarged Issued Share Capital, being the shares payout to the Preference Shareholders under the Proposed Scheme.

(b) Duration of Authority

If the proposed adoption of the Preference Shares Buyback is approved by the Shareholders in the EGM, the Company will purchase the Preference Shares in accordance with the terms of the Proposed Scheme, at any time and from time to time, on and from the date of the EGM, up to

(i) the date on which the next annual general meeting of the Company is held or is required by law to be held;

(ii) the date on which the authority conferred by the Preference Shares Buyback is revoked or varied by the Shareholders in a general meeting; and

(iii) the date on which the purchases and acquisitions of the Preference Shares pursuant to the Preference Shares Buyback are carried out to the full extent mandated,

whichever is earliest.

(c) Source of Funds

The Preference Shares Buyback will be funded from the amounts to be received by the Company under the Proposed SMI Investment and the issuance of Debt Conversion Shares (as described in Section 3.2 of the Circular).

(d) Status of the Purchased Shares

All Preference Shares which are purchased by the Company are deemed cancelled immediately on purchase and all rights and privileges attached to the Preference Shares will expire on such cancellation."

3.5 The Debt Conversion Shares Issuance

The Debt Restructuring Exercise includes partial settlement of the liabilities due and owing to the Unsecured Scheme Parties and the Debt Securities Scheme Parties, by way of the allotment and issuance by the Company of the Debt Conversion Shares. Information on the Debt Conversion Shares Issuance is set out in **Section 4** of the Circular. We have reproduced certain key infomation below:

"*(a) Key Terms of the Debt Conversion Shares Issuance*

Under the terms of the Proposed Scheme,

(i) up to 7,067,564,901 Debt Conversion Shares, such number of Shares representing 36% of the Enlarged Issued Share Capital (including the Debt Conversion Shares representing 4% of the Enlarged Issued Share Capital to be issued to the Preference Shareholders), are intended to be allotted and issued to the Unsecured Scheme Parties and Debt Securities Scheme Parties;

(ii) the Debt Conversion Share Issue Price is approximately S$0.034 per Debt Conversion Share, which was determined based on the factors set out in Section 4.4 of the Circular;

(iii) the Debt Conversion Shares shall be issued and credited as fully paid-up, be free from any and all Encumbrances, be fully transferable and shall rank pari passu in all respects with the existing Shares and the SMI Shares, save that they shall not rank for any dividends, rights, allotments, distributions or entitlements, the Record Date of which falls on or prior to the date of the allotment and issuance of the Debt Conversion Shares; and

(iv) the Debt Conversion Shares are to be allotted and issued to the Unsecured Scheme Parties and the Debt Securities Scheme Parties in accordance with the specific allocations set out in Appendix B of the Circular.

(b) Rationale for the proposed allotment and issuance of the Debt Conversion Shares

As mentioned in Section 2.2 of the Circular, the proposed allotment and issuance of the Debt Conversion Shares is to partially satisfy the Unsecured Claims and Debt Securities Claims pursuant to the Proposed Scheme."

4 THE PROPOSED SMI INVESTMENT

Information on the Proposed SMI Investment is set out in **Section 5** of the Circular. We have reproduced certain key infomation below:

4.1 Information on the Investor

"Identity of SM Investments Pte. Ltd.

*As of the Latest Practicable Date, SM Investments Pte. Ltd. is a consortium formed between the Salim Group led by Mr. Anthony Salim and the Medco Group led by Mr. Arifin Panigoro in the ownership percentages of 60% and 40% respectively ("**Consortium**"). Based on information provided by the Investor:*

(a) The Salim Group

The Salim Group is one of the largest conglomerates in Asia which controls Pacific Light Power Pte Ltd, an 800MW power generator company in Singapore, as well as Moya Holdings Asia Ltd, a company listed on the Catalist Board of the SGX-ST, which is the largest water treatment and distribution provider in Jakarta.

The Salim Group also owns various investments around the region, including investments in (i) Metro Pacific Investments Corporation, the largest infrastructure investment management and holding company in the Philippines, with (A) investments in the country's largest electricity distributor, hospital group, toll road operator and water distributor and (B) substantial investments in major logistics and light rail operations and the largest electricity generator in the Visayas region of the Philippines; (ii) Maynilad Water Services, Inc., the largest water and wastewater services provider in Metro Manila; (iii) Meralco, the largest private sector electric distribution utility company in the Philippines; (iv) PXP Energy Corporation, an oil and gas company; (v) PT Indofood Sukses Makmur Tbk, the largest vertically integrated food company in Indonesia; (vi) PT Indoritel Makmur International Tbk, which owns stakes in (A) Indomaret, Indonesia's largest minimarket operator by number of stores, (B) Sari Roti, Indonesia's largest bread manufacturer, and (C) Fast Food Indonesia, owner of the exclusive rights to operate KFC restaurants in Indonesia with 540 stores to date; and (vii) PLDT Inc, the dominant telecommunications and digital services provider in the Philippines with the largest fixed broadband network and the most sophisticated wireless network in the country.

(b) The Medco Group

*Founded by Mr. Arifin Panigoro, the Medco Group comprises, among others, PT Medco Energi Internasional Tbk ("**MEI**"), various plantations, property, and PT Bank Woori Saudara, a financial institution.*

MEI is the largest publicly-listed, private sector Indonesian oil and gas company which is listed on the Indonesia Stock Exchange. It also has a stake in Indonesia's second largest copper and gold mine. MEI currently has a market capitalisation of approximately S$1.5 billion.

*MEI is an integrated energy and natural resources company with significant interests in oil and gas exploration and production focused principally in Indonesia. It controls and operates the West Natuna Transportation System Pipeline which delivers gas to Singapore, and is also a major shareholder in PT Amman Mineral Nusa Tenggara, Indonesia's second largest copper and gold producer. PT Medco Power Indonesia ("**MPI**"), a subsidiary of MEI owns and operates clean energy power plants across Indonesia with combined gross capacity of 645 MW including the 330MW Sarulla geothermal power plant, the world's largest single-contract geothermal project. MPI also operates and maintains third-party power plants with a total capacity of 2,150MW. MPI will be commencing development of Riau CCPP (275 MW) and Ijen geothermal (110 MW) soon. MPI will continue to prioritise development in the sector of clean and renewable energy.*

Strategy of SM Investments Pte. Ltd. following from the Proposed Restructuring

The Company understands from SM Investments Pte. Ltd. that it intends to (a) stabilise and rebuild the organisation, structure, system, process, procedure, culture and reputation of the Group (b) address and resolve immediate needs at the project company level of various subsidiaries of the Group and (c) pursue new projects with the assistance of the Consortium.

The Board is of the view that the financial strength of the Salim Group and Medco Group as well as their combined experience in water utilities, power generation and infrastructure projects will elevate the Company to a different level and open up new untapped growth opportunities for the Group."

4.2 Key Terms of the Proposed SMI Investment

"The key terms of the Proposed SMI Investment are as follows:

*(a) the Investor will be subscribing for 11,779,274,835 new Shares ("**SMI Shares**"), representing 60% of the Enlarged Issued Share Capital;*

(b) the SMI Shares Issue Price is approximately S$0.034 per SMI Share, which was determined based on the factors set out in Section 5.5 of the Circular. The aggregate subscription amount for all SMI Shares is S$400,000,000;

(c) the SMI Shares shall be issued and credited as fully paid-up, be free from any and all Encumbrances, be fully transferable and shall rank pari passu in all respects with the existing Shares and the Debt Conversion Shares, save that they shall not rank for any dividends, rights, allotments, distributions or entitlements, the Record Date of which falls on or prior to the date of the allotment and issuance of the SMI Shares; and

*(d) the Investor will grant a shareholder's loan with a principal amount of S$130,000,000 to the Company ("**Investor Shareholder's Loan**") which is to be repaid on the date which is three (3) years after the date of the first drawdown of the Investor Shareholder's Loan. Interest will accrue on the Investor Shareholder's Loan at a rate of 4.5% per annum calculated on the principal amount of the loan outstanding from time to time, and is payable to the Investor on the date when repayment of the principal amount of the loan is due. All interest unpaid shall at the end of each period of three (3) months be compounded by being added to the principal amount of the Investor Shareholder's Loan then outstanding and shall bear interest accordingly."*

4.3 Use of Proceeds

"The total amount of proceeds raised from the Proposed SMI Investment shall be applied as follows: (a) full and final settlement of the cash payouts to each of the Unsecured Scheme Parties, Debt Securities Scheme Parties and Subordinated Scheme Parties amounting to approximately S$259,000,000 or about 48.9% of the total Proposed SMI Investment, (b) S$12,000,000 or about 2.3% of the total Proposed SMI Investment will be transferred as advances to Hydrochem, Hyflux Engineering and Hyflux Membrane Manufacturing to fund such group companies' payout of the amounts payable in connection with their respective proposed schemes of arrangement and (c) the working capital needs of the Group's business."

4.4 Rationale for placing to the Investor

"The Investor was identified by the Company through a competitive process undertaken by the Company as part of the Proposed Restructuring.

The Consortium has strong track records of running successful and well-managed diverse businesses throughout Southeast Asia and other parts of the world. They also bring extensive experience in owning and operating water and power utilities; power generation and distribution assets; and oil and gas properties particularly in Southeast Asia's most complex and largest markets.

The Company understands from the Investor that examples of such infrastructure projects of the Consortium include the "build-operate-transfer" water treatment projects in Bekasi and Tangerang, Indonesia, owned by PT Moya Indonesia which are part of the Salim Group, and various energy projects completed by MEI, including Donggi Senoro LNG (valued at US$2.2 billion), Senoro Upstream Development (valued at approximately US$800 million), Sarulla Geothermal (valued at approximately US$1.5 billion), Block A Aceh Development Project (valued at approximately US$600 million), and Lematang Gas Development Project (valued at approximately US$200 million)."

4.5 Basis upon which the SMI Shares Issue Price was determined

"The SMI Shares Issue Price was agreed between the Company and the Investor on a willing-buyer and willing-seller basis pursuant to the competitive bid process conducted by the Company to pursue strategic investments in the overall business of the Group. The SMI Shares Issue Price of approximately S$0.034 represents a discount of approximately 83.8% to the weighted average price of approximately S$0.21 per Share for trades done on the Shares on the SGX-ST on 18 May 2018, being the Last Trading Day prior to the voluntary suspension of trading of the Shares on the Main Board of the SGX-ST."

4.6 Conditions Precedent to the Proposed SMI Investment

"The completion of the Proposed SMI Investment is conditional upon:

(a) the in-principle approval for the Additional Listing Application being obtained from the SGX-ST and not having been revoked or amended and, where such approval is subject to conditions, such conditions for the listing and quotation of the SMI Shares and Debt Conversion Shares on the Main Board of the SGX-ST are acceptable to the Company and the Investor, and to the extent that such conditions are required to be fulfilled on or before Restructuring Effective Date, they are so fulfilled;

(b) confirmation from the SIC that the Investor and parties acting in concert with it shall not be obliged to, pursuant to or as a result of the SMI Shares Issuance, make an offer for the Company under Rule 14 of the Code;

(c) the holders of Shares approving, at an EGM, the allotment and issue of the SMI Shares and Debt Conversion Shares and the Proposed Whitewash Resolution;

(d) a full and final settlement, discharge and/or redemption of the Unsecured Financial Debt (as defined in the Restructuring Agreement) (including the medium term notes outstanding), Preference Shares, Perpetual Capital Securities, contingent debt and trade debt, through one or more of the following:

(i) the sanction of the Proposed Scheme and the scheme of arrangement relating to Hydrochem by order of the Court and being binding in accordance with the Companies Act;

(ii) the amendment(s) to the medium term notes issued by the Company to effect the full and final settlement, discharge and/or redemption of the medium term notes pursuant to the terms and conditions and trust deeds of the medium term notes are approved by the requisite majority of the holders of the medium term notes at a meeting duly convened and held;

(iii) the amendment(s) to the Perpetual Capital Securities to effect the full and final settlement, discharge and/or redemption of the Perpetual Capital Securities pursuant to the terms and conditions and trust deeds of the Perpetual Capital Securities are approved by the requisite majority of the holders of Perpetual Capital Securities at a meeting duly convened and held; and/or

(iv) the amendment(s) to the terms of the Preference Shares to effect the full and final settlement, discharge and/or redemption of the Preference Shares pursuant to the Company's constitution are approved by the requisite majority of the holders of the Preference Shares at a meeting duly convened and held;

(e) the necessary approvals, consents and waivers being obtained from:

(i) the PUB, for the issuance of SMI Shares which will result in a change of control under Clause 21 of the Water Purchase Agreement dated 6 April 2011 entered into between PUB and Tuaspring (as may have been amended, restated and supplemented from time to time);

(ii) the NEA for the issuance of the SMI Shares which will result in a change in control under Clauses 6.2, 7.2 and/or 19 of the Waste-to-Energy Services Agreement dated 26 October 2015 entered into between the NEA and TuasOne (as may be amended, restated and supplemented from time to time); and

(iii) the EMA, for the issuance of SMI Shares which will result in a change of control of the Company, if required under the Electricity Act (Chapter 89A of Singapore), or any permit or licence issued to the Group by, or any agreement with, the EMA; and

(f) if applicable, any other approvals, consents and waivers from any competent foreign or Singaporean government or governmental, administrative, regulatory, or judicial agency, authority, exchange, tribunal or entity necessary for Completion due to any change in applicable laws (including the enactment of any new applicable laws) being obtained.

As at the Latest Practicable Date, the Company is of the view that the conditions set out in Sections 5.6(a), (b) and (e)(i) have been fulfilled."

4.7 Updates on the Proposed SMI Investment

*"The Investor has written to the Company on various occasions since 7 March 2019 to make certain assertions in connection with the Restructuring Agreement (collectively, the "**Investor Notices**"). The key assertions made in the Investor Notices are as follows:*

(a) a prescribed occurrence under the Restructuring Agreement relating to Tuaspring "ceas[ing] or threaten[ing] to cease for any reason to carry on its business in the usual and ordinary course" has arisen based on a notice from the PUB dated 5 March 2019 alleging certain defaults by Tuaspring under the water purchase agreement entered into between PUB and Tuaspring dated 6 April 2011 and requesting that Tuaspring remedies such defaults by a specific date. The Investor further asserts that such alleged prescribed occurrence must be cured by 1 April 2019;

(b) the Investor has asserted that it does not agree to the terms of the proposed schemes 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 Precedent under the Restructuring Agreement will not be satisfied (even if the proposed schemes have been sanctioned);

(c) a second prescribed occurrence has arisen under the Restructuring Agreement relating to Tahlyat Mylah Magtaa SPA "ceas[ing] or threaten[ing] to cease for any reason to carry on its business in the usual and ordinary course" based on a notice from Sonatrach SpA and L'Algerienne des Eaux dated 25 December 2018 alleging certain defaults under the concession agreement for the Magtaa desalination plant in Algeria and threatening to terminate such concession agreement in the event that these alleged defaults are not cured by 8 February 2019. The Investor further asserts that such alleged prescribed occurrence must be cured by 8 April 2019.

The Company disagrees with the Investor's assertions in the Investor Notices. For more details on the Company's position on such Investor's assertions, please refer to Appendix C of the Circular.

The Company has tried but has been unable to meaningfully engage with the Investor on such assertions. That said, as the Restructuring Agreement remains in force and the Investor has not stated that it will resile from the Proposed SMI Investment, the Company has taken and will continue to take steps to fulfil its contractual obligations under the Restructuring Agreement, including by taking steps to convene this EGM.

In view of the above (and particularly, the Investor Notices), Shareholders should note that there is no assurance that the Proposed SMI Investment will be completed in the manner currently contemplated under the Restructuring Agreement or at all.

For further details on the Investor Notices and the Company's position on the Investor's assertions in such Investor Notices, please see Appendix C of the Circular."

Further information on the Proposed SMI Investment is set out in **Section 5** of the Circular. Shareholders are advised to read the information set out therein carefully.

5 THE PROPOSED WHITEWASH RESOLUTION

Information on the Proposed Whitewash Resolution is set in **Section 6** of the Circular. We have reproduced certain key infomation below:

5.1 Confirmation from the SIC

*"The SIC was consulted on the above and confirmed on 25 March 2019 that the Investor need not make a general offer for the Company as a result of or pursuant to the SMI Shares Issuance, subject to the following conditions (collectively, the "**SIC Conditions**"):*

(a) *a majority of the Shareholders approving at the EGM the Proposed Whitewash Resolution by way of a poll to waive their rights to receive a general offer from the Investor;*

(b) the Proposed Whitewash Resolution is separate from other resolutions to be tabled at the EGM;

(c) the Concert Party Group and parties not independent of it abstain from voting on the Proposed Whitewash Resolution;

(d) the Concert Party Group did not acquire or are not to acquire any Shares in the Company or instruments convertible into and options in respect of Shares (other than pursuant to the SMI Shares Issuance):

(i) during the period between the announcement of the Proposed SMI Investment and the date on which Independent Shareholders' approval is obtained for the Proposed Whitewash Resolution; and

(ii) in the six months prior to the announcement of the Proposed SMI Investment, but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Proposed SMI Investment;

(e) the Company appoints an independent financial advisor to advise the Shareholders on the Proposed Whitewash Resolution;

(f) the Company sets out clearly in this Circular:

(i) details of the Proposed SMI Investment and the Debt Restructuring Exercise;

(ii) the dilution effect of the Proposed SMI Investment and Debt Restructuring Exercise to the existing Shareholders;

(iii) the number and percentage of voting rights in the Company as well as the number of instruments convertible into, rights to subscribe for and options in respect of Shares held by the Concert Party Group as at the Latest Practicable Date;

(iv) the number and percentage of voting rights to be held by the Investor upon completion of the Proposed SMI Investment;

(v) specific and prominent reference to the fact that the SMI Shares Issuance will result in the Investor carrying over 49% of the voting rights of the Company and the fact that the Concert Party Group will be free to acquire further Shares without incurring any obligation under Rule 14 to make a mandatory general offer;

(vi) that Independent Shareholders, by voting for the Proposed Whitewash Resolution, are waiving their rights to receive a general offer from the Investor at the highest price paid by the Concert Party Group for the Shares in the past 6 months preceding the commencement of the offer;

(g) this Circular states that the Proposed Whitewash Waiver is subject to the SIC Conditions stated in paragraphs (a) to (f) above;

(h) the Company obtains the SIC's approval in advance for those parts of this Circular that refer to the Proposed Whitewash Resolution; and

(i) to rely on the Proposed Whitewash Resolution, the approval of the Proposed Whitewash Resolution must be obtained within three (3) months of the date of the Proposed Whitewash Waiver and the Proposed SMI Investment must be completed within 3 months of the approval of the Proposed Whitewash Resolution.

The Company understands that the Investor does not intend to, nor wishes to be subject to the obligation to, make a mandatory general offer as a result of or pursuant to the SMI Shares Issuance. As such, in accordance with the SIC Condition set out in Section 6.2(a) above, the Company will be seeking the approval of the Shareholders of the Proposed Whitewash Resolution at the EGM.

As at the Latest Practicable Date, save for the SIC Conditions set out in Sections 6.2(a), (b), (c) and (i) of the Circular, all the other SIC Conditions have been satisfied."

6 EVALUATION OF THE PROPOSED WHITEWASH RESOLUTION

In arriving at our opinion in respect of the Proposed Whitewash Resolution when considered in the context of the Proposed SMI Investment, we have deliberated on the following factors which we consider to be pertinent and have a significant bearing on our assessment:

- rationale for the Proposed Restructuring and the use of proceeds from the Proposed SMI Investment;
- historical financial performance and condition of the Group;

- assessment of the terms of the Proposed SMI Investment;
- dilution impact arising from the Proposed Restructuring;
- financial effects of the Proposed Restructuring;
- absence of suitable and viable alternative debt restructuring proposal; and
- other relevant considerations.

6.1 Rationale for the Proposed Restructuring and the use of proceeds from the Proposed SMI Investment

The rationale for the Proposed Restructuring is set out in **Section 2** of the Circular and Section 3.2 of this IFA Letter. We reproduce below the salient extract of the rationale for the Proposed Restructuring (including the Proposed SMI Investment).

"*The Proposed Restructuring is intended to serve a dual function:*

(a) comprehensively restructure the Group's financial obligations. The Proposed Restructuring allows the Company to comprehensively restructure its obligations with the Scheme Parties in a way that would significantly reduce the financial burden on the Company and alleviate pressures faced by the Company on its cash flow; and

(b) enable the Group to seek fresh capital for deployment in areas for growth and create value for its stakeholders. In this regard, the Company has been pursuing potential strategic investments for the Group. In line with this business objective, the Proposed Restructuring will enable the Company to maximise the value of the Group for both its creditors and Shareholders, and to ensure the long-term sustainability and competitiveness of the Group with a view to deliver value to its Shareholders and other stakeholders."

We note that the total proceeds from the Proposed SMI Investment of S$530.0 million (including the Investor Shareholder's Loan of S$130.0 million) will be applied towards (a) full and final settlement of each of the Unsecured Claims, Debt Securities Claims and Subordinated Claims and (b) the working capital needs of the Group's business.

6.2 Historical financial performance and condition of the Group

We set out below a summary of the audited financial statements of the Group for the full years ended 31 December 2017 ("**FY2017**") and 31 December 2016 ("**FY2016**") and the pro forma unaudited interim financial statements of the Group for the nine months ended 30 September 2018 ("**9M2018**") and the corresponding nine months ended 30 September 2017 ("**9M2017**").

We note that the pro-forma unaudited consolidated statement of financial position and consolidated statement of comprehensive income for the Group for the nine months ended 30 September 2018 ("**Pro-forma Unaudited Financials**") have been prepared for illustrative purposes only and are based on certain key assumptions and adjustments as follows:

1. The Pro-forma Unaudited Financials have been compiled based on the unaudited financial information of the Hyflux Group as at 30 September 2018;
2. The Pro-forma Unaudited Financials have been prepared based on a going concern basis on the assumption of a successful restructuring exercise;
3. The periodic assessment of the carrying value of assets has been carried out. These assets are assessed at the end of the reporting period to determine whether there is objective evidence that they are impaired, in accordance with FRS 36 Impairment of Assets;

4. The service concession receivables relate to the guaranteed minimum payments receivable by the TuasOne WTE, Qurayyat and Tianjin Dagang plants from the respective grantors. These amounts represent the guaranteed minimum payments receivable for the remaining service concession period. The assessment of the carrying value of the service concession receivables is based on the assumption that the plants which are under construction will be completed by the respective latest expected completion dates;

5. The assets and liabilities identified for held for sale are Tuaspring Pte. Ltd. ("**Tuaspring**") and Hyflux Energy Pte. Ltd. (collectively "**Tuaspring Disposal Group**"). For the purpose of this Pro-Forma Unaudited Financials, the Tuaspring Disposal Group is assumed to be held for sale due to the ongoing sale process pursuant to the agreement with Malayan Banking Berhad dated 5 July 2018.

   The intangible assets arising from service concession arrangements and service concession receivables are stated at fair value determined by an independent valuer, Infunde Capital Pte. Ltd., which represents the value in use based on the reference base case, using the discounted cash flow method.

   The valuation is based on the most recent market study conducted by K4K Training & Advisory S.L., the same consultant who did a similar market study in 2016 (which supported the valuation then). The view taken in this most recent market study is significantly different from that in 2016 due to the following reasons:

   (i) the losses in the electricity market in the recent years; and

   (ii) the projected lower spark spreads for the remaining concession period. The lower projected spark spreads are, in turn, based on (a) a rebasing of starting demand levels; (b) an increase in photovoltaic and autogeneration capacity; (c) revision downwards of the realisable spark spread as a function of the reserve margin; and (d) an assumption of zero retail margin.

   The Company has adopted the current valuation in the Pro-Forma Unaudited Financials. However, given that the current valuation is significantly lower than that adopted in 2016, the Company intends to commission a further valuation to be undertaken by a different valuer for the purposes of finalising the 2018 full year financial results.

   As the carrying value is a reflection of the current depressed market, in the event that the Singapore power market recovers to provide generation companies with sufficient spark spread margins, the valuation might then be revised.

6. The impairment loss totalling $916 million relates predominantly to the impairment loss arising from the assessment of the carrying value of Tuaspring and the impairment of receivables for previously completed projects.

No audit, review or agreed upon procedures were undertaken by the Group's external auditor in respect of the Pro-forma Unaudited Financials. The Pro-forma Unaudited Financials are compiled in a manner consistent with the accounting policies adopted by the Group in its audited financial statements for FY2017 which are in accordance with Singapore Financial Reporting Standards.

Consolidated Income Statement

S$'000	Pro forma Unaudited 9M2018	Unaudited 9M2017	Audited FY2017	Audited FY2016[1]
Revenue	67,855	271,304	353,629	830,634
Other Income	54,189	58,187	114,470	76,104
Changes in inventories of finished goods and work-in-progress	4,209	1,425	(3,127)	(7,413)
Raw materials and consumables used and subcontractors' costs	(85,738)	(132,302)	(215,335)	(532,679)
Staff costs	(72,763)	(70,425)	(94,590)	(82,661)
Depreciation, amortisation and impairment	(13,651)	(12,287)	(28,920)	(17,996)
Impairment loss	(916,462)	–	–	–
Other expenses	(83,190)	(53,474)	(104,854)	(72,551)
Finance costs	(55,420)	(42,568)	(58,450)	(47,769)
Share of profit of equity-accounted investees (net of tax)	1,754	3,093	91	(2,730)
(Loss)/profit before tax	(1,099,217)	22,953	(37,086)	142,939
Tax credit/(expense)	21,732	1,627	3,416	(18,841)
(Loss)/profit for the period excluding Tuaspring Disposal Group [2]	(1,077,485)	24,580	(33,670)	124,098
Loss from Tuaspring Disposal Group (net of tax)	(69,820)	(74,497)	(81,890)	(114,490)
(Loss)/Profit for the period	(1,147,305)	(49,917)	(115,560)	9,608
(Loss)/profit excluding Tuaspring Disposal Group attributable to:				
Owners of the Company	(1,049,078)	24,145	(34,462)	118,323
Non-controlling interests	(28,407)	435	792	5,775
(Loss)/profit for the period excluding Tuaspring Disposal Group	(1,077,485)	24,580	(33,670)	124,098
Loss attributable to:				
Owners of the Company	(1,118,898)	(50,352)	(116,352)	3,833
Non-controlling interests	(28,407)	435	792	5,775
Loss for the period	(1,147,305)	(49,917)	(115,560)	9,608

Notes:

1. The restatement of the FY2016 results was due to the reinstatement of depreciation charges for the Tianjin Dagang project.

2. As announced in February 2017, the Group initiated a partial divestment of the Tuaspring Disposal Group subject to relevant regulatory approvals. Following the announcement, the statement of profit or loss has been presented to show the results of Tuaspring Disposal Group separately from other operations.

Statements of Financial Position

S$'000	Pro forma Unaudited as at 30-Sep-18	Audited as at 31-Dec-17	Audited as at 31-Dec-16[(1)]
ASSETS			
Property, plant and equipment	116,006	121,115	183,767
Intangible assets and goodwill	5,470	21,023	23,910
Intangible assets arising from service concession arrangements	–	–	1,083,682
Subsidiaries	–	–	–
Associates and joint ventures	182,082	190,664	185,917
Deferred tax assets	38,366	17,115	54,466
Other investments	20,000	–	–
Service concession receivables	1,081,391	1,157,945	1,222,845
Trade and other receivables, including derivatives	6,543	3,000	3,751
Non-current assets	**1,449,858**	**1,510,862**	**2,758,338**
Contract assets	50,961	42,895	69,656
Inventories	44,926	48,999	44,774
Service concession receivables	6,201	6,219	14,555
Trade and other receivables, including derivatives	177,495	248,791	427,748
Cash and cash equivalents	193,718	314,168	332,169
Assets held for sale	651,053	1,481,291	195,163
Current assets	**1,124,354**	**2,142,363**	**1,084,065**
LIABILITIES			
Trade and other payables, including derivatives	549,904	491,526	579,789
Loans and borrowings	508,178	352,462	304,927
Tax payable	15,217	8,894	22,663
Liabilities held for sale	558,519	579,187	169
Current liabilities	**1,631,818**	**1,432,069**	**907,548**
Net current assets	**(507,464)**	**710,294**	**176,517**
Trade and other payables, including derivatives	14,577	35,895	14,520
Loans and borrowings	1,060,598	1,173,195	1,367,500
Deferred tax liabilities	3,232	4,504	4,749
Non-current liabilities	**1,078,407**	**1,213,594**	**1,386,769**
Net assets	**(136,013)**	**1,007,562**	**1,548,086**
EQUITY			
Share capital	521,329	607,258	607,258
Treasury shares	–	(85,929)	(85,929)
Perpetual securities	494,798	494,798	785,280
Reserves	(1,155,709)	(59,652)	10,753
(Accumulated loss)/retained earnings	–	25,540	209,398
Total equity attributable to owners of the Company	**(139,582)**	**982,015**	**1,526,760**
Non-controlling interests	3,569	25,547	21,326
Total equity	**(136,013)**	**1,007,562**	**1,548,086**

Source: FY2017 annual report and the Group's interim financial results announcements

Note:

1. The restatement of the FY2016 results was due to the reinstatement of depreciation charges for the Tianjin Dagang project.

6.2.1 Analysis of the financial performance of the Group

For FY2017, we note that loss attributable to the shareholders of the Company (excluding the Tuaspring Disposal Group) was S$34.5 million as compared to a profit of S$118.3 million in FY2016. Including the Tuaspring Disposal Group results, the Group recorded a loss of $116.4 million for FY2017 against a restated profit of S$3.8 million in FY2016.

We note that the Tuaspring Disposal Group reported a loss of S$81.9 million in FY2017 against a loss of S$114.5 million in FY2016. The loss was a result of the weak power market in Singapore as well as an oversupply of gas in the market that led to weak electricity prices, affecting power generation companies in Singapore. Overall, the Group was also impacted by higher operating costs incurred for certain projects, provision for doubtful receivables following assessment of certainty of collectability, higher machinery rental for projects and forex loss.

For 9M2018, we note that loss attributable to the shareholders of the Company (excluding the Tuaspring Disposal Group) was S$1,049.1 million as compared to a loss of S$24.1 million in 9M2017. Including the Tuaspring Disposal Group results, the Group recorded a loss of $1,118.9 million for 9M2018 against a loss of S$50.4 million in 9M2017.

The increase in losses for 9M2018 was due mainly to the $916 million impairment loss arising from the assessment of the carrying value of Tuaspring and the impairment of receivables for previously completed projects.

We note that the profits of the Group have been declining since FY2016 and the Group has been in a net loss position since FY2017, due mainly to the weak Singapore power market and impairment losses.

6.2.2 Analysis of the financial position of the Group

We note the following:

(a) total assets of the Group declined from S$3.8 billion as at 31 December 2016 to S$3.7 billion as at 31 December 2017, which was mainly attributable to impairment in net carrying value of investment in associate and related receivables, lower cash balance due to utilisation for operating activities, payment of interest and dividends, and redemption of the perpetual capital securities of S$295.0 million;

(b) total liabilities increased from S$2.3 billion as at 31 December 2016 to S$2.6 billion as at 31 December 2017 due mainly to the drawdown of the long-term secured project financing loans, offset by net settlement of trade payables for the TuasOne WTE and Qurayyat projects;

(c) shareholder's equity decreased from S$1.5 billion as at 31 December 2016 to S$1.0 billion as at 31 December 2017 due mainly to the redemption of perpetual capital securities of S$295.0 million in January 2017 and the losses incurred from operations for FY2017;

(d) as at 31 December 2017, the Group's total cash and cash equivalents was S$314.2 million and net borrowings (net of cash) was approximately SS$1.2 billion;

(e) total assets declined from S$3.7 billion as at 31 December 2017 to S$2.6 billion as at 30 September 2018, which was mainly attributable to impairment losses arising from the assessment of the carrying value of Tuaspring and the impairment of receivables for previously completed projects;

(f) total liabilities increased marginally by S$64.6 million from S$2.6 billion as at 31 December 2017 to S$2.7 billion as at 30 September 2018;

(g) shareholder's equity decreased from S$1.0 billion as at 31 December 2017 to negative shareholder's equity S$139.6 million as at 30 September 2018 due mainly to impairment loss assessed in 9M2018 and the losses incurred from operations for 9M2018; and

(h) as at 30 September 2018, the Group's total cash and cash equivalents was S$193.7 million and net borrowings (net of cash) was approximately S$1.4 billion (excluding liabilities held for sale).

We note that the Group is in a net liabilities position of S$136.0 million as at 30 September 2018 due mainly to impairment loss assessed in 9M2018 and the losses incurred from operations for 9M2018.

6.2.3 Summary of recent announcements and events of the Company relating to the Proposed Restructuring

A summary of the salient announcements and key events of the Company relating to the Proposed Restructuring from 22 May 2018 and ending on the Latest Practicable Date is set out below:

Date	Event
22-May-18	Announcements on the commencement of court supervised process to reorganise their liabilities and businesses (the "**Applications**") and that the distribution on its Perpetual Capital Securities which was due on 28 May 2018 would not be made.
25-May-18	Updates on the reorganisation process - announcement on the scheduling of the Pre-Trial Conference ("**PTC**") on 28 May 2018.
28-May-18	Updates on the reorganisation process - announcement that at the PTC, a hearing in respect of the Applications was scheduled on 19 June 2018 at 10.00 a.m. in the High Court of the Republic of Singapore.
4-Jun-18	Updates on the reorganisation process - announcement that the Company and its advisors have been working to stabilise the Group and have been taking steps towards improving the Group's short-term liquidity constraints and other strains on the Group's finances. The Company had been engaging in preliminary discussions with interested financiers regarding the provision of funding to the Group and the entry into non-disclosure agreements to further such discussions.
6-Jul-18	Updates on the reorganisation process - announcement that the Company, Tuaspring and Malayan Banking Berhad ("**Maybank**") have reached agreement in respect of the process for the divestment of the Company's interest in Tuaspring's Integrated Water and Power Project. Maybank is Tuaspring's only secured creditor.
8-Jul-18	Announcement on the grant of waivers from Rule 705(2) of the Listing Manual for the extension of time to announce the unaudited financial statements of the Group for the second quarter ended 30 June 2018 ("**2Q2018**") and for the third quarter ending 30 September 2018 ("**3Q2018**").
20-Jul-18	Updates on the reorganisation process - announcement on the town hall meetings held on 19 July 2018 and 20 July 2018.

12-Oct-18	Updates on the reorganisation process - announcement regarding the Tuaspring divestment process. There were 8 interested parties in Tuaspring prior to the formal commencement of the Tuaspring divestment process. Following the formal commencement of the Tuaspring divestment process, two parties were prequalified, of which one had put in a bid for Tuaspring.
15-Oct-18	Updates on the reorganisation process - announcement of Maybank's in-principle approval for extension of time to execute a binding agreement with a successful bidder or investor. As stated in the 6 July 2018 announcement, the Company had to 15 October 2018 to execute a binding agreement. This was extended to and including 29 October 2018.
18-Oct-18	Announcement on the Proposed SMI Investment in the Company by the Investor.
8-Nov-18	Announcement on Maybank's approval for further extension to 29 November 2018.
26-Nov-18	Announcement in relation to the applications for an extension of the period for which the moratorium orders are in force ("**Extension Applications**"). The Court granted the Extension Applications, extending the existing moratorium to 30 April 2019.
4-Dec-18	Announcement on Maybank's approval for further extension to 28 December 2018.
17-Dec-18	Updates on the reorganisation process - announcement of the second round of town hall meetings, scheduled for 18 January 2019.
31-Dec-18	Announcement on Maybank's approval for further extension to 31 January 2018.
3-Jan-19	Announcement on the grant of waivers from Rule 705(1), 705(2), and 707(1) of the Listing Manual. The SGX-ST granted further extensions on 2 January 2019, for the Company to announce its 2Q2018, 3Q2018 and FY2018 financial statements by 30 June 2019 or before the lifting of the suspension.
14-Jan-19	Announcement on receipt of approval by the Accounting and Corporate Regulatory Authority for extension of time to hold the Company's annual general meeting for FY2018 to 31 August 2019.
18-Jan-19	Updates on the reorganisation process - announcement on the second round of town hall meetings held on 18 January 2019.
4-Feb-19	Announcement on Maybank's approval for further extension to 28 February 2019.
11-Feb-19	Announcement on the receipt of the letter sent by Securities Investors Association Singapore ("**SIAS**")
15-Feb-19	Announcement on the Board's response to SIAS queries.
16-Feb-19	Announcement on the Board's intention to contribute their stakes in the Company, and all their entitlements as holders of Preference Shares and Perpetual Capital Securities under the Proposed Restructuring, to be distributed solely to all other holders of Perpetual Capital Securities and Preference Shares (the "**PNP**") of the Company upon completion of the Proposed Restructuring.

28-Feb-19 Announcement on Maybank's approval for further extension to 31 March 2019.

2-Mar-19 Updates on the reorganisation process – announcement that the Company and three of its subsidiaries, namely Hydrochem, Hyflux Engineering and Hyflux Membrane Manufacturing (collectively, the "**Applicants**") have filed an affidavit with:

(a) the pro-forma unaudited consolidated statement of financial position and consolidated statement of comprehensive income for the Company and its subsidiaries for the financial period ended 30 September 2018, and

(b) the pro-forma restructured consolidated statement of financial position and consolidated statement of comprehensive income for the Company and its subsidiaries.

5-Mar-19 Updates on the reorganisation process – announcement that Tuaspring has received a notice from the Public Utilities Board ("**PUB**") 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**").

8-Mar-19 Updates on the reorganisation process – availability of list of parties who filed a proof of claim.

8-Mar-19 Updates on the reorganisation process – response by the Board relating to SIAS letter dated 27 February 2019.

11-Mar-19 Updates on the reorganisation process – rescheduling of 13 March 2019 town hall meeting.

16-Mar-19 Updates on the reorganisation process – availability of adjudication results.

18-Mar-19 Updates on the reorganisation process – receipt of a notice from the Investor.

21-Mar-19 Updates on the reorganisation process – Company requested for certain clarifications from PUB regarding Tuaspring intergrated water and power project.

25-Mar-19 Updates on the reorganisation process – clarification regarding media articles

26-Mar-19 Updates on the reorganisation process – restructuring agreement

6.2.4 Liquidation Analysis

Ernst & Young Solutions LLP ("**EY**") has been engaged by the Company as the financial adviser to the Group in relation to the Debt Restructuring Exercise. For the purpose of the Debt Restructuring Exercise only, EY has performed an analysis of the estimated realisations from a theoretical liquidation scenario of the Company as the ultimate holding company of the Group (the "**Liquidation Analysis**"). Please refer to **Appendix B** of the Circular for the full Liquidation Analysis report by EY.

The Liquidation Analysis has been prepared on a "bottom-up" basis where liquidation or sales of the assets occur at each individual standalone entity. This approach takes into account the intercompany flows within the Group which will be important to the ultimate return to the Company. In the analysis, recoveries to the creditors of the Company includes the value recovered from its subsidiaries and value recovered from the assets of its associates and JVs (including outside of Singapore in a number of cases). Additional analysis was performed to further consider the estimated realisation values derived from material assets / projects (including outside of Singapore in a number of cases) which may be available to the Company.

In performing the Liquidation Analysis, EY has taken into account some of the standard practices (i.e. the likelihood of repayments from local debtors, the ability of an overseas liquidator to enforce security (where relevant) upon local entities and the ease of repatriating cash) that are specific to certain jurisdictions that could possibly have an impact on the ultimate liquidation returns of the Company.

We note that the Liquidation Analysis was based on the balance sheet of the Company as at 31 March 2018 (proxy to the moratorium date of 22 May 2018). Where possible, EY has updated the balances based on certain known material events resulting in an increase in liabilities since 31 March 2018. As such, any other events post the assumed liquidation date are not considered in the analysis.

The other overarching assumptions taken by EY in performing the Liquidation Analysis are listed in the Liquidation Analysis report which is included in **Appendix B** of the Circular. The assumptions used for the Low case and High case recovery scenarios are reproduced below:

Assumptions – Low case

- The Low case estimates returns to unsecured creditors where liquidation or sales of assets occur at each individual standalone entity and the environment in which the liquidator is trying to realise value from the assets / investments is very challenging.
- The Low case also includes forced sales on certain assets necessitated by the absence of working capital facilities which reduces a liquidator's ability to transact for maximum value.

Assumptions – High case

- The High case has factored a greater stability into the liquidation process as a whole, largely the key assets / investments could be realised at a higher value.

Based on the Liquidation Analysis, the estimated realisable value and realisation rate for the various classes of unsecured creditors and ordinary Shareholders are as follows:

	Low case		**High case**	
	Estimated realisable value	**Estimated realisation rate**	**Estimated realisable value**	**Estimated realisation rate**
Senior unsecured creditors - Bank creditors - Noteholders - Contingent creditors - Trade and other creditors	S$75 million	3.8%	S$171 million	8.7%
Subordinated unsecured creditors - Preference shareholders - Perpetual security holders	Nil	Nil	Nil	Nil
Ordinary Shareholders	Nil	Nil	Nil	Nil

We note that based on the Liquidation Analysis, the subordinated unsecured creditors and the ordinary Shareholders are not expected to be able to recover any value in a liquidation scenario.

6.3 Assessment of the terms of the Proposed SMI Investment

The key financial terms of the Proposed SMI Investment are as follows:

(i) the Investor will be subscribing for 11,779,274,835 new SMI Shares at the SMI Shares Issue Price of approximately S$0.034, representing 60.0% of the Enlarged Issued Share Capital for an aggregate subscription amount of S$400.0 million; and

(ii) the Investor will grant the Investor Shareholder's Loan of S$130.0 million to the Company which is to be repaid on the date which is three (3) years after the date of the first drawdown of the Investor Shareholder's Loan. Interest will accrue on the Investor Shareholder's Loan at a rate of 4.5% per annum calculated on the principal amount of the loan outstanding from time to time, and is payable to the Investor on the date when repayment of the principle amount of the loan is due. All interest unpaid shall at the end of each period of three (3) months be compounded by being added to the principal amount of the Investor Shareholder's Loan then outstanding and shall bear interest accordingly.

6.3.1 Financial Position of the Group

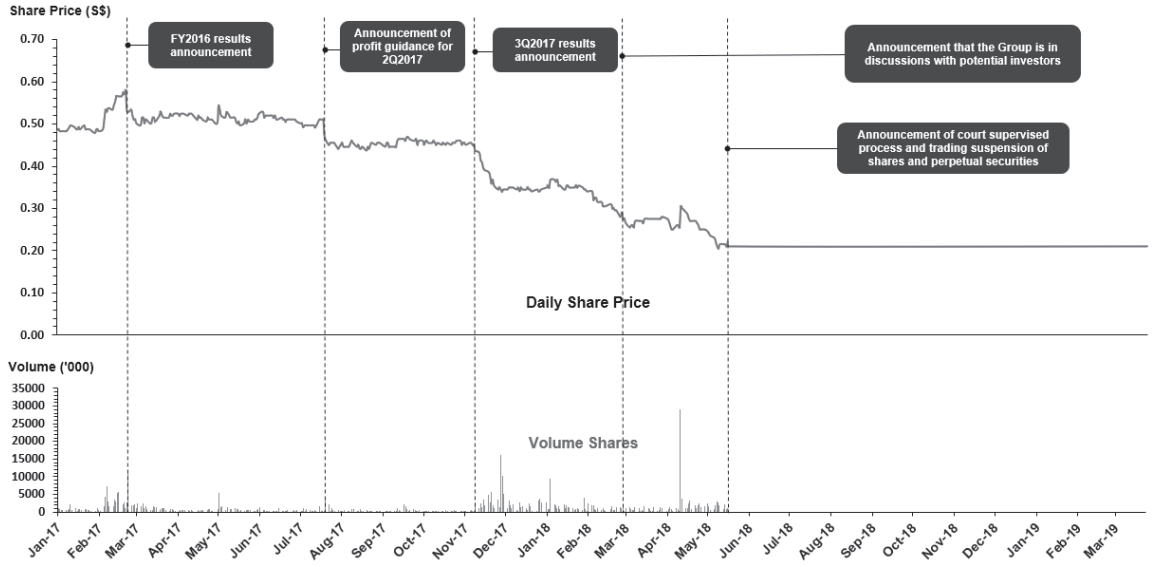
Based on the latest unaudited pro-forma financial statements of the Group as at 30 September 2018, the Group reported a negative NTA per Share of S$(0.551) based on 785,284,989 ordinary Shares in issue (not including the treasury shares held by the Company) as at 30 September 2018. Accordingly, the SMI Shares Issue Price of S$0.034 represents a premium to the unaudited NTA per Share as at 30 September 2018.

We wish to highlight that the analysis above is solely for illustration purposes only as the NTA may not be fully realisable at its stated value, especially within a short time frame, given that the assets of the Group is very specialised and the market value of these assets may vary depending on, amongst others, the prevailing market and economic conditions and whether a buyer can be found for such specialised assets. Also, we wish to highlight that the NTA for the Group may deteriorate further if the Group continues to incur losses after 30 September 2018.

6.3.2 Historical market prices of the Shares

The following presents the historical chart of the closing market prices of the Shares and the number of Shares traded on a daily basis during the period commencing from 1 January 2017 to the Latest Practicable Date.

Chart 1: Market price performance of the Shares from 1 January 2017 to the Latest Practicable Date



Source: Bloomberg L.P., and information/announcement from the SGX-ST

We note that the market capitalisation of the Company has generally declined since February 2017 to a low of approximately S$161.0 million on 10 May 2018.

Key announcements and events affecting the market price of the Shares

On 23 February 2017, the Company announced in its FY2016 results announcement that the Board had proposed a final dividend of 0.25 Singapore cents per ordinary share. Together with an interim dividend of 0.20 Singapore cents per ordinary share paid in September 2016, this brings the total dividend for the year to 0.45 Singapore cents per ordinary share. Additionally, the Company announced that it will be seeking a partial divestment of the Tuaspring plant.

On 20 July 2017, the Company announced a profit guidance that the Group is expected to report a loss for 2Q2017 largely driven by the weak Singapore power market.

On 9 November 2017, the Company announced its 3Q2017 results. Excluding Tuaspring, revenue for 3Q2017 dipped to S$98.0 million from S$248.5 million in the previous corresponding financial quarter. Subsequently in the following days, Share prices declined to below the S$0.40 mark.

On 27 February 2018, the Company announced that the process of the partial divestment of Tuaspring was taking longer than initially expected. In light of the delay in the divestment, the Company announced that it was unlikely to complete any divestment deal ahead of the first call date in April 2018 for redemption of its Preference Shares.

On 21 May 2018, the Company requested for a trading halt pending the release of an announcement.

On 22 May 2018, the Company announced that it had applied to the High Court of the Republic of Singapore pursuant to Section 211B(1) of the Singapore Companies Act to commence a court supervised process in May 2018 to reorganise the liabilities and businesses of the Group, in order to protect the value of its businesses while it reorganises its liabilities. As part of the reorgansation process, the Company had also been advised by its advisors that the payment of the distribution on its S$500 million 6.0% per annum Perpetual Capital Securities which would have been due on 28 May 2018 should not be made at that point in time. The Company had also requested for a voluntary trading suspension of its shares and securities listed on the SGX-ST in order to protect the interests of each stakeholder group, and to avoid a potential situation where trading in such shares and securities may occur in the absence of complete information on the ongoing reorganisation process (the "**22 May 2018 Announcement**").

Prior to the trading halt and suspension, the last traded price of the Shares was S$0.210 on 18 May 2018.

We note that the Shares were last traded on 18 May 2018, which was prior to the 22 May 2018 Announcement. Accordingly, we are of view that it would not be meaningful to benchmark the SMI Shares Issue Price against the historical market prices of the Shares as it would not be indicative of the market sentiments of investors on the outcome of the Proposed Restructuring.

6.3.3 The Proposed SMI Investment is critical to the Proposed Restructuring

We note that the SMI Shares Issue Price of S$0.034 per SMI Share is equivalent to the Debt Conversion Share Issue Price of S$0.034 per new Debt Conversion Share that will be issued to the Scheme Parties.

Notwithstanding the above, we have considered that the proposed issuance of the SMI Shares is a critical component of the Proposed Restructuring. As part of the Proposed SMI Investment, the Investor will subscribe for the SMI Shares for the total consideration of S$400.0 million in cash and grant a further Investor Shareholder's Loan of S$130.0 million to the Company, which will be used for the full and final settlement of each of the Unsecured Claims, Debt Securities Claims and Subordinated Claims and for the working capital needs of the Group's business.

Under the terms of the Debt Restructuring Exercise, the Scheme Parties shall accept the cash distribution (to be paid using the proceeds from the Proposed SMI Investment) and the Debt Conversion Shares in full satisfaction and complete discharge of all claims against the Group. Accordingly, after the completion of the Debt Restructuring Exercise, all claims from the Scheme Parties will be completely and absolutely release and discharged and the balance proceeds can be used for the working capital needs of the Group, with a view to the rehabilitation of the business and financial performance of the Group for the benefit of its stakeholders.

6.4 Dilution impact arising from the Proposed Restructuring

As at the Latest Practicable Date, there are 864,530,989 issued ordinary Shares in the Company, of which 79,264,000 Shares are held by the Company as treasury shares. Upon the completion of the Proposed Share Buyback and the issuance of the SMI Shares and the Debt Conversion Shares under the Proposed Scheme, it is expected that the number of Shares belonging to the Existing Shareholders of the Company will remain unchanged but their aggregate Shareholdings in the Company will be diluted to 4% based on the Enlarged Issued Share Capital of the Company.

Please refer to **Appendix B** of the Circular for further information on the potential changes in the shareholding structure of the Company pursuant to the completion of the Proposed Restructuring.

6.5 Pro Forma financial effects of the Proposed Restructuring

The pro forma financial effects of the Proposed Restructuring are for illustrative purposes only and do not necessarily reflect the actual results and financial position of the Group following the completion of the Proposed Restructuring. Information on the pro forma financial effects of the Proposed Restructuring on the share capital of the Company, NTA, profit/(loss) and gearing of the Group have been prepared based on the pro forma unaudited consolidated financial statements of the Group for the nine (9) months ended 30 September 2018 ("**9M2018**") and the bases and assumptions are set out in **Section 7** of the Circular. We have reproduced certain key infomation below.

6.5.1 Bases and assumptions

"*For the purposes of illustration, the pro forma financial effects of the Proposed Restructuring on the share capital of the Company, NTA, profit/(loss) and gearing of the Group are computed based on the following bases and assumptions:*

(a) the 9M2018 Financial Statements have been prepared on a going concern basis on the assumption that the Proposed Restructuring will be successful;

(b) the schemes of arrangement in relation to Hydrochem, Hyflux Engineering and Hyflux Membrane Manufacturing have been completed;

(c) all claims by trade creditors against Hydrochem, Hyflux Engineering and Hyflux Membrane Manufacturing which amount to less than S$5,000 will be paid in full;

(d) in addition to the Investor Shareholder's Loan, the loans and borrowings of the Group after the completion of the Proposed Restructuring include project finance loans in the subsidiaries;

(e) following the completion of the Proposed SMI Investment, there will be a change in the control of the Company. The carrying value of the deferred tax assets in the 9M2018 Financial Statements is based on the assumption that the Inland Revenue Authority of Singapore will accept the relevant applications to be made by the companies of the Group incorporated in Singapore for a waiver of the shareholding test in respect of the utilisation of tax losses relating to such deferred tax assets;

(f) the pro forma NTA per Share as at 30 September 2018 has been prepared on the assumption that the Proposed Restructuring had been completed on 30 September 2018;

(g) the pro forma profit/(loss) per Share has been prepared on the assumption that the Proposed Restructuring had been completed on 30 September 2018; and

(h) the pro forma gearing as at 30 September 2018 has been prepared on the assumption that the Proposed Restructuring had been completed on 30 September 2018.

No audit, review or agreed upon procedures was undertaken by the Group's external auditor in respect of these pro forma consolidated financial information and pro forma financial effects."

6.5.2 Pro Forma Share Capital

Assuming the successful completion of the Proposed Restructuring, the capital structure of the Company immediately after completion of the Proposed Restructuring is envisaged to be as follows:

	As at the Latest Practicable Date	**After the completion of the Debt Conversion Shares Issuance and the SMI Shares Issuance**
Issued and paid-up Share capital (S$'million)	128.8[(1)]	768.8
Number of Shares	785,284,989[(2)]	19,632,124,725
Issued and paid-up Preference Share capital (S$'million)	400.0	–
Number of Preference Shares	4,000,000	–

Notes:

(1) The issued and paid-up Share capital excludes the treasury shares held by the Company.

(2) As at the Latest Practicable Date, the Company has 785,284,989 Shares which excludes 79,246,000 Shares that are held by the Company as treasury shares.

6.5.3 Pro Forma NTA

For illustrative purposes only and assuming that the Proposed Restructuring had been completed on 30 September 2018, the effect of the Proposed Restructuring on the NTA per Share as at 30 September 2018 is as follows:

	As at 30 September 2018	**After the completion of the Proposed Restructuring**
Pro forma NTA of the Group attributable to the Shareholders (S$'million)	(432.6)	815.3
Number of Shares	785,284,989	19,632,124,725
Pro forma NTA per Share (cents) [(1)]	(55.1)	4.2

Note:

(1) Pro forma NTA per Share is computed based on the pro forma NTA of the Group attributable to the Shareholders of the Company divided by the number of Shares.

6.5.4 Pro forma Profit / (Loss)

For illustrative purposes only and assuming that the Proposed Restructuring had been completed on 30 September 2018, the effect of the Proposed Restructuring on the pro forma profit/(loss) per Share for 9M2018 is as follows:

	For 9M2018	After the completion of the Proposed Restructuring
Pro forma profit/(loss) of the Group attributable to the Shareholders (S$'million)	(1,118.9)	(407.5)
Weighted average number of Shares	785,284,989	19,632,124,725
Pro forma profit/(loss) per Share (cents) [(1)]	(142.5)	(2.1)

Note:

(1) Pro forma profit/(loss) per Share is computed based on the pro forma profit/(loss) of the Group attributable to the Shareholders of the Company divided by the weighted average number of Shares.

6.5.5 Pro forma Gearing

For illustrative purposes only and assuming that the Proposed Restructuring had been completed on 30 September 2018, the effect of the Proposed Restructuring on the pro forma gearing as at 30 September 2018 is as follows:

	As at 30 September 2018	After the completion of the Proposed Restructuring
Total debt (S$'million)	1,568.8	733.3
Total equity (S$'million)	(136.0)	1,111.9
Gearing ratio[(1)]	nm[(2)]	0.7

Notes:

(1) Gearing ratio is computed as total debt divided by total equity.

(2) n.m. – Not meaningful.

We note the following that based on the pro forma financial effects of the Proposed Restructuring on the Group's pro forma unaudited consolidated financial statements as at 30 September 2018:

(i) the NTA per Share of the Group is expected to improve from net tangible liabilities of (55.1) cents to net tangible assets of 4.2 cents upon completion of the Proposed Restructuring;

(ii) the loss per Share of the Group is expected to improve from (142.5) cents to (2.1) cents upon completion of the Proposed Restructuring; and

(iii) the gearing for the Group is expected to improve significantly upon completion of the Proposed Restructuring.

6.6 Absence of suitable and viable alternative debt restructuring proposals as at the Latest Practicable Date

We note from the Company's announcement on 18 October 2018, that the Company had conducted a competitive bidding process in order to pursue strategic investments into the overall business of the Group. The Company entered into non-disclosure agreements with 16 potential interested parties, which were subsequently narrowed down to eight (8) interested parties. Having considered the various proposals submitted by the interested parties, the Board announced that the Company had on 18 October 2018 entered into the Restructuring Agreement with the Investor.

With regards to the Company's ongoing reorganisation process, the Court had on 26 November 2018, granted an extension of the period for which the moratorium orders are in force to 30 April 2019.

We further note that the Company clarified following the town hall meeting in January 2019 that, while there were preliminary confidential discussions with interested parties in relation to a potential divestment of the Group's interest in Tuaspring in early 2018, there were no formal or binding offers received. Any indicative numbers discussed by interested parties were purely in the context of exploratory discussions and were based on a valuation of Tuaspring derived from a financial model of future cash flows for the project as developed by an independent consultant at that time and prior to the completion of any due diligence or negotiations with such interested parties.

The Company did continue to engage with these and other interested parties during the 6-month moratorium, to run another divestment process in collaboration with Maybank, the sole secured lender to Tuaspring. During this divestment process, a sole bid was yielded from the two (2) parties that were pre-qualified by the regulatory authorities to submit binding offers. The submission of the binding offer arising from the sole bid was still subject to various conditions being met, and even if those conditions could be met, the bid would not have been sufficient to repay in full the secured bank debt owing to Maybank.

In respect of the above, the Directors and management have confirmed to us that as at Latest Practicable Date, to the best of their knowledge and belief, save for what have been previously disclosed above, in the Circular, the annual reports and the announcements made by the Company on SGXNET, (i) the Proposed Restructuring (comprising the Debt Restructuring Exercise and the Proposed SMI Investment) is currently the only suitable and viable debt restructuring proposal available to the Company and its creditors, and that (ii) they have considered, *inter alia*, the profile, reputation, track record, as well as, the financial ability of the Investor to provide the amount of funds required by the Group to successfully implement a debt restructuring proposal, having regard to the interests of the Company and its stakeholders.

6.7 Other Relevant Considerations

6.7.1 Inter-conditionality of the Proposed Preference Shares Buyback, the Proposed Debt Conversion Shares Issuance in connection with the Proposed Scheme, the Proposed SMI Investment and the Proposed Whitewash Resolution in connection with the Proposed SMI Investment.

Shareholders should note that the resolutions set out in the Notice of EGM (the "**EGM Resolutions**") are (a) subject to the Proposed Scheme coming into effect; and (b) inter-conditional upon the passing of each EGM Resolution, such that if any EGM Resolution is not approved by the Shareholders, all of the EGM Resolutions shall be deemed not approved.

Accordingly, in the event that any EGM Resolution is not approved, the Proposed SMI Investment and the Proposed Scheme will lapse and it is likely that the Group will go into liquidation.

6.7.2 Residual value of the Group in the event of winding-up or liquidation

We note that in the Liquidation Analysis report by EY as set out in **Appendix B** of the Circular, it appears unlikely that Shareholders would be able to realise any value from their Shares in the event of a winding-up or liquidation of the Company in the absence of a successful debt restructuring exercise.

6.7.3 Implications of the approval of the Proposed Whitewash Resolution

The approval of the Proposed Whitewash Resolution will enable the Company to proceed with the implementation of the Proposed Restructuring. However, by voting in favour for the Proposed Whitewash Resolution, the Independent Shareholders will be waiving their rights to receive a mandatory general offer for their Shares from the Investor at the highest price paid by the Investor and its concert parties for the Shares in the six (6) months preceding the announcement of the Proposed SMI Investment, being 18 October 2018, which it would have otherwise been obliged to make for the Shares in accordance with Rule 14 of the Code.

Pursuant to obtaining the Independent Shareholders' approval for the Proposed Whitewash Resolution, and assuming the completion of the Proposed SMI Investment, the Investor and its concert parties will hold Shares carrying over 49% of the enlarged voting rights of the Company based on the Enlarged Issue Share Capital and accordingly, will be free to, as a group, acquire further Shares without incurring any obligation under Rule 14 of the Code to make a mandatory general offer for the Company.

6.7.4 No assurance of improvement to the Group's financial position and performance or enhancement of Shareholders' value

As set out in **Section 5.1** of the Circular, we note that the Investor is a Consortium that has strong track records of running successful and well-managed diverse businesses throughout Southeast Asia and other parts of the world. They also bring extensive experience in owning and operating water and power utilities; power generation and distribution assets; and oil and gas properties particularly in Southeast Asia's most complex and largest markets..

Shareholders should however note that there is no assurance that the injection of new funds from the Proposed SMI Investment and/or the steps taken or future plans to be implemented by the Investor for the Company subsequent to the Proposed Restructuring to improve its financial position and performance will be successful or would result in an enhancement of Shareholders' value.

6.7.5 Possibility of resumption of trading of the Shares after completion of the Proposed Restructuring

As set out in **Section 2.4** of the Circular, we note that the Company intends to take steps to effect the resumption of trading of the Shares after the completion of the Proposed Restructuring and the announcement of the unaudited full year financial results of the Group for the financial year ended 31 December 2018.

6.7.6 The Directors will be giving up their entitlements under the Proposed Scheme

Under the Proposed Scheme, the Directors will be giving up their entitlements (including the cash payout and Debt Conversion Shares which they are entitled to receive as holders of the Perpetual Capital Securities and/or Preference Shareholders under the Proposed Scheme) as well as their existing Shares in the Company as of the Latest Practicable Date (save for the deemed interest of Christopher Murugasu of 180,000 Shares held by his spouse, Bernardette Oei Lian Hua, and the direct interest of Christopher Murugasu of 1,880 Preference Shares held by him as trustee for the estate of Ms Tang Hoong Yang nee Hong Sau Ching, deceased, which are Shares that do not belong to him and therefore excluded) to the Debt Securities Scheme Parties.

6.7.7 Issue of default notice to Tuaspring by the PUB

We note that Tuaspring, a subsidiary of the Company, had received a notice from the PUB dated 5 March 2019 asserting certain defaults by Tuaspring under the 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**"). The WPA provided a default cure period of 30 days from 6 March 2019 (i.e. until 5 April 2019), or such longer period as may be reasonable (the "**Default Cure Period**") for Tuaspring to consult with PUB as to the steps that need to be taken with a view of mitigating the consequences of, and curing, any defaults that are alleged to have occurred.

After the Default Cure Period, if any breaches that have arisen are not remedied, PUB has the sole and absolute discretion to, amongst other things, terminate the WPA by giving written notice of not less than 30 days to Tuaspring. Under the Restructuring Agreement, a termination of the WPA may entitle the Investor to assert a right to terminate the Restructuring Agreement.

As noted in section 6.6 above, the Proposed Restructuring is currently the only suitable and viable debt restructuring proposal available to the Company and its creditors as at the Latest Practicable Date. In the event that the Proposed Restructuring is not successful, the Default Cure Period will lapse and PUB may exercise its right to amongst other things, terminate the WPA.

6.7.8 Investor notices in relation to the Restructuring Agreement issued by the Investor to the Company

We note that the Investor has written to the Company on various occasions since 7 March 2019 to make certain assertions in connection with the Restructuring Agreement (collectively, the "**Investor Notices**"). The Investor Notices contained certain assertions, inter alia, that there has been non-fulfilment of certain Conditions Precedent and/or certain events amount to prescribed occurrences arising under the Restructuring Agreement, and the effect of which is that the Investor may be entitled to terminate the Restructuring Agreement.

Details of the key contents of the Investor Notices and the Company's position on the Investor's assertions in the Investor Notices are set out in **Section 5.9** of the Circular.

In view of the Investor Notices issued by the Investor to the Company, there is no assurance that the Proposed SMI Investment will be completed in the manner currently contemplated under the Restructuring Agreement or at all.

7 RECOMMENDATION AND CONCLUSION

In arriving at our opinion in respect of the Proposed Whitewash Resolution, we have reviewed and deliberated on factors which we consider to be relevant and to have a significant bearing on our assessment of the Proposed Whitewash Resolution. We have carefully considered factors which we deem essential and balance them before reaching our opinion. Accordingly, it is important that this IFA Letter, in particular, all the considerations and information which we have taken into account, be read in its entirety.

Having carefully considered the information available to us, and based upon the relevant conditions subsisting on the Latest Practicable Date and based on the factors set out in section 6 above, and subject to the assumptions made herein, from a financial point of view, we are of the view that the Proposed Whitewash Resolution, when considered in the context of the Proposed SMI Investment (which terms are fair and reasonable), is not prejudicial to the interest of the Independent Shareholders.

Accordingly, we are of the view that the Independent Directors should recommend that Shareholders vote in favour of the Proposed Whitewash Resolution to be proposed at the EGM.

In performing our evaluation and arriving at these conclusions, we wish to emphasise that we have relied on, *inter alia*, publicly available information, relevant statements contained in the Circular, confirmations, advice, representations and information provided by the Directors and management of the Company and therefore do not reflect any projections or future financial performance of the Group after the completion of the Proposed Restructuring. We wish to emphasise that we have arrived at our opinion based on information made available to us prior to and including the Latest Practicable Date. We assume no responsibility to update, review or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date, unless otherwise stated.

We would like to highlight that we do not express any opinion on the rationale for, as well as the legal and commercial risks and/or merits (if any) of, the Proposed Restructuring (including the Proposed SMI Invesment). Such remains the sole responsibility of the Directors. It is also not within our terms of reference to provide an opinion on the relative merits of Proposed Restructuring (including the Proposed SMI Invesment) *vis-à-vis* any alternative transaction previously considered by the Company or transactions that the Company may consider in the future.

This IFA Letter (for inclusion in the Circular) and our opinion therein has been prepared for the use of the Independent Directors in their consideration of the Proposed Whitewash Resolution and their respective recommendation to the Independent Shareholders arising thereof. The recommendations made by the Independent Directors to the Independent Shareholders in relation to the Proposed Whitewash Resolution remains the responsibility of the Independent Directors.

This Letter is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not imply by implication to any other matter.

Yours faithfully
For and on behalf of
STIRLING COLEMAN CAPITAL LIMITED

YAP YEONG KEEN
DIRECTOR

Hyflux Ltd

Liquidation Analysis – Estimated Realisation Outcomes

Private and confidential

Reliance Restricted

15 February 2019

EY
Building a better working world

EY
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Any person intending to read this document should first read this letter

15 February 2019

Private and Confidential

Hyflux Ltd
Hyflux Innovation Centre
80 Bendemeer Road
Singapore 339949

Dear Sirs,

Project Phoenix

Ernst & Young Solutions LLP ("EY") has been engaged by Hyflux Ltd ("Hyflux") and its subsidiaries (collectively "Hyflux Group") as financial advisor in relation to the restructuring of the Hyflux Group (the "Transaction"), in accordance with the engagement agreement dated 14 May 2018 (the "Engagement Agreement").

Purpose of Document and restrictions on its use

This document ("Document") was prepared for Hyflux in relation to providing a basis for the Hyflux Group to have a discussion with its creditors regarding a restructuring proposal. It should not be used or relied upon by any other party.

This Document and its contents are private and confidential and information contained herein includes non-public and market sensitive information concerning the Hyflux Group, and may not be quoted, referred to or shown to any other parties without our prior written consent.

We accept no responsibility or liability to any person other than to Hyflux, and accordingly if such other persons choose to rely upon any of the contents of this Document they do so at their own risk.

Nature and scope of the services

The nature and scope of the services, including the basis and limitations, are detailed in the Engagement Agreement.

Our work in connection with this engagement is of a different nature to that of an audit or a review of information, as those terms are understood in any applicable auditing standards.

In preparing this Document, we have relied on the records of the Hyflux Group and discussions with parties involved in the Transaction, including the Hyflux Group's management ("Management"), key employees and Hyflux's legal advisors. The information we have received is the responsibility of Hyflux Group's management. We have not sought to establish the reliability, accuracy or completeness of the information given to us nor have we undertaken an audit of the information. Consequently, we give no assurance on such information.

Our work contained within this Document was completed on 10 November 2018. Therefore, the Document does not take account of events or circumstances arising after 10 November 2018 and we have no responsibility to update the Document for such events or circumstances.

Building a better working world

Management has been provided with a copy of this report and have confirmed its factual accuracy. The report was approved for release on 15 February 2019.

Prospective financial information ("PFI")

Please note that any prospective financial information ("PFI") presented in this Document is based on the Hyflux Group management's assumptions regarding future events, which may or may not occur as assumed and consequently, the actual results achieved may materially differ from those as presented in this Document. We take no responsibility for the achievement of projected results.

Except as otherwise noted, we have not analyzed or commented on macroeconomic or geopolitical conditions that could impact the PFI. We have not provided any opinion, conclusion or any type of assurance about specific assumptions or components of the PFI or on the PFI as a whole.

References to EY in the Document will relate to our analysis and will not indicate that we take any responsibility for the information concerned or are assembling or associating ourselves with any financial information including prospective financial information. Hyflux is solely responsible for any decision to execute or implement any such advice or recommendation, the actual execution or implementation or any thereof, the sufficiency of such advice or recommendation for your purposes, and the results of such implementation.

Yours faithfully

Ernst & Young Solutions LLP

Abbreviations

Company	Hyflux Ltd
Debt Restructuring Exercise	Court supervised process to reorganize the liabilities and businesses of Hyflux Ltd and its subsidiaries i.e. Hydrochem (S) Pte Ltd, Hyflux Engineering Pte Ltd, Hyflux Membrane Manufacturing (S) Pte Ltd and Hyflux Innovation Centre Pte Ltd
EPC	Engineering, Procurement and Construction
Group	Hyflux Ltd and its subsidiaries
High case	Liquidation scenario, high estimated asset realizations
Hydrochem	Hydrochem (S) Pte Ltd
HyfluxShop	HyfluxShop Holdings Ltd
JV	Joint Venture
Low case	Liquidation scenario, low estimated asset realizations
m	Million
Magtaa	Magtaa Seawater Reverse Osmosis Plant
PT Oasis	PT Oasis Waters International
S$	Singapore Dollar
SingSpring	SingSpring Trust
Tianjin Dagang	Tianjin Dagang NewSpring Co. Ltd
Tlemcen	Tlemcen Desalination Investment Company
Tuaspring	Tuaspring Pte Ltd
Tus Water	Tus Water Group Ltd

Liquidation scenario analysis – Hyflux Ltd
Estimated returns

Estimated returns – assumed insolvency date of 31 March 2018 (Unit: S$'m)	Low case Estimated realizable value	 Estimated realization rate	High case Estimated realizable value	 Estimated realization rate	Notes
Total realizable assets	**81**		177		Note 1
Less: preferential claims					Note 2
Taxes	(2)		(2)		
Liquidators' expenses, fees and disbursements	(4)		(4)		
Available to unsecured creditors	**75**		**171**		
Senior unsecured creditors					Note 3
Bank creditors	573		573		
Noteholders	271		271		
Contingent creditors	1,046		1,046		
Trade and other creditors	72		72		Note 4
Total senior unsecured creditors	**1,962**		**1,962**		
Estimated recovery for senior unsecured creditors		**3.8%**		**8.7%**	
Surplus/ (Shortfall) to senior unsecured creditors	**(1,887)**		**(1,791)**		
Subordinated unsecured creditors					
Preference shareholders	400		400		
Perpetual security holders	500		500		
Total Subordinated unsecured creditors	**900**		**900**		
Estimated recovery for subordinated unsecured creditors		**Nil**		**Nil**	
Surplus/ (Shortfall) to subordinated unsecured creditors	**(900)**		**(900)**		
Total Surplus/ (Shortfall) to all unsecured creditors	**(2,787)**		**(2,691)**		
Surplus to shareholders	-		-		

Note- the recoveries detailed above set out the estimated potential recoveries for unsecured creditors including crystalised contingent creditors.

Liquidation scenario analysis – Hyflux Ltd
Estimated returns - notes

1. **Total Realizable Assets**
   - Please note that these returns represent amounts received by Hyflux Ltd only, in its position as the Group's ultimate holding company. Returns shown are primarily due to realizations from intercompany receivables due from subsidiaries.
2. **Preferential claims**
   - Pursuant to Section 328 of the Singapore Companies Act, the costs and expenses of the winding up including taxes and liquidator's expenses, fees and disbursements shall be paid in priority to all other unsecured debt.
   - The estimated tax expense of approximately S$2m is based on the net outstanding tax payable to IRAS per the balance sheet as at 31 March 2018.
   - Liquidators' expenses, fees and disbursements have been estimated to cover fees and expenses of the liquidator up to the dissolution of the liquidation, including the estimated costs of any retained employees to oversee the asset realizations. However, the liquidators' expenses does not take into account of professional fees of external parties. We assume that there are no complex matters required to be handled by the liquidator during the process of liquidation.
3. **Senior unsecured creditors**
   - The senior unsecured financial creditors refer to the bank creditors, contingent creditors, noteholders, trade creditors and other creditors. The liquidation analysis was performed based on the available position of liabilities at the time of preparation of this analysis dated 10 November 2018:
     - Trade and other liabilities as at 31 March 2018; and
     - Financial liabilities have been updated to 31 August 2018 (based on the occurrence of certain known events since 31 March 2018).
4. **Trade and other creditors**
   - The balances are made up of various items but mainly relate to intercompany trade and non-trade payables.

Liquidation scenario analysis – Hyflux Ltd
Other important matters to note (1/4)

Purpose of this analysis	► Our analysis has been prepared solely for Hyflux Ltd for the purpose of the Debt Restructuring Exercise. The analysis details the estimated realizations from a theoretical liquidation scenario of the Company as the ultimate holding company of the Group.
Approach of this analysis	► The analysis has been prepared on a 'bottom-up' basis where liquidation or sales of assets occur at each individual standalone entity. This approach takes into account the intercompany flows within the Group which will be important to the ultimate return to the Company. In this analysis, recoveries to the creditors of the Company includes the value recovered from its subsidiaries and value recovered from the assets from its associates and JVs (including outside of Singapore in a number of cases). Additional analysis was performed to further consider the estimated realization values derived from material assets / projects (including outside of Singapore in a number of cases) which may be available to the Company. ► In our analysis we have taken into account some of the standard practices (i.e. the likelihood of repayments from local debtors, the ability of an overseas liquidator to enforce security (where relevant) upon local entities and the ease of repatriating cash) that are specific to certain jurisdictions that could possibly have an impact on the ultimate liquidation returns of the Company. ► The data underpinning this analysis has been provided by the Company's management. No audit procedure nor due diligence has been conducted on this data and it has not been verified for completeness and accuracy. This analysis also relied on legal advice on the rights and obligations of available relevant agreements provided by the Company.
Estimated returns to unsecured creditors	► The estimated total return to senior unsecured creditors of Hyflux Ltd in a liquidation scenario ranges from S$75 million to S$171 million, based on the assumptions detailed in this analysis, which equates to a return of 3.8% to 8.7% on an undiscounted basis (before taking into account the time value of money). We consider that returns to creditors could take up to 5 years to deliver given the market norms in dealing with the complex and multi-jurisdictional structure of the Group. ► Please note that nil recovery is estimated for the subordinated unsecured creditors.

Liquidation scenario analysis – Hyflux Ltd
Other important matters to note (2/4)

Overarching assumptions	The overarching key assumptions that underpin our analysis are as follows: 1. Insolvency date as at 31 March 2018 ► The analysis is based on the balance sheet as at 31 March 2018 (proxy to the moratorium date of 22 May 2018). Where possible, we have reflected the updated balances based on certain known material events resulting in an increase in liabilities since 31 March 2018 (i.e. the calling of performance bonds). As such, any other events post the assumed liquidation date are not considered in the analysis. ► The analysis does not include intercompany realizations from associates and JVs. 2. Impact of the Company's liquidation on other Group companies ► Upon commencement of liquidation of the Company, many of the other Group entities (including Hydrochem and the EPC business generally) are also assumed to enter liquidation on or around the same time. Consequently, we also assume that construction activities on projects would immediately cease. 3. Employees ► Most of the employees would have their contracts of employment terminated immediately upon liquidation. We assume only a small base of skeleton staff would be retained by the liquidator to assist with the realization of assets. 4. Material asset owning entities / investments ► We have assumed that certain asset owning entities / investments which do not require financial support from the Company, are not placed into liquidation and are instead realized through the sale of shares via an orderly sale process. 5. Debt profile ► All debt in the Company is unsecured. ► No security has been granted to any of the said liabilities. Only certain bank facilities are guaranteed by Hydrochem.

Liquidation scenario analysis – Hyflux Ltd
Other important matters to note (3/4)

Overarching assumptions (continued)	5. Debt profile (continued) ► In addition to the liabilities reflected on the balance sheet i.e. bank facilities, medium term notes, preference shares, perpetual securities, trade and other payables, the Company also has off balance sheet exposure to corporate guarantees and/or performance bonds relating to certain EPC works / projects / asset owning entities. It has been assumed that all contingent liabilities have crystallised. 6. Adjustments to estimated recoveries ► We have analyzed each of the material assets of the Group and assessed the capacity for the liquidator to realize value. ► Tuaspring – we have assumed that the sale process in a liquidation scenario is not likely to yield any excess net sale proceeds over the secured bank debt. ► Magtaa and Tlemcen – we have assumed that there is unlikely to be any value in the shares of the two Algerian asset owing entities, taking into consideration inter alia, bank security, shareholder agreements, offtaker obligations and unresolved disputes with project stakeholders. ► Other assets – realization values are mainly attributed to other assets held for sale i.e. China assets (including Tianjin Dagang, Tus Water), PT Oasis (which has since been sold), SingSpring, and HyfluxShop. Unless set out in shareholding agreements, we assume that equity values are derived based on the book or market values after settling all liabilities, sale realization costs and application of certain discounts given the potential business / financial stress. ► Where assets are held in challenging or complex jurisdictions, we have applied a discount to the likely recoverability. However, specific local insolvency laws in jurisdictions that may prove challenging to repatriate cash, have not been examined in further detail. ► The available cash as at 31 March 2018 has been assumed to be partly used for operational purposes, with 20% of the balance remaining at the date of the liquidation. Any amounts held in fixed deposit / reserve accounts are assumed to be set off in full against the bank creditors' unsecured claims. ► Trade and other receivables relating to third party receivables and are assumed to be realized in a range of 0%-20%.

Liquidation scenario analysis – Hyflux Ltd
Other important matters to note (4/4)

Assumptions – Low case	► The Low case estimates returns to unsecured creditors where liquidation or sales of assets occur at each individual standalone entity and we assume that the environment in which the liquidator is trying to realize value from the assets / investments is very challenging. ► The Low case also includes forced sales on certain assets necessitated by the absence of working capital facilities which reduces a liquidator's ability to transact for maximum value.
Assumptions – High case	► The High case has factored a greater stability into the liquidation process as a whole, largely the key assets / investments could be realized at a higher value.

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ED None

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In this Appendix B, the following definitions apply throughout unless otherwise stated:

"**Accepted**"	:	In relation to a claim, the acceptance by the Chairman of such claim (or part thereof) for the purposes of determining entitlement to attend and vote at the Scheme Meetings without dispute or, where applicable, the acceptance or determination by the Independent Assessor of such claim (or part thereof) for such purpose in accordance with the Proof Regulations.
"**Chairman**"	:	The chairman of the Scheme Meetings appointed pursuant to Section 211F(5) of the Companies Act.
"**Contingent Claim Crystallisation Challenge**"	:	A written response to a Contingent Claim Crystallisation Notice to be issued by any Unsecured Scheme Party (excluding any Unsecured Scheme Party who as at the date of that Contingent Claim Crystallisation Notice only has a Contingent Claim which has been Extinguished) to the Scheme Manager within 17 days of the date of the Contingent Claim Crystallisation Notice setting out the following information: (a) proof that his or her Unsecured Claim was Accepted; (b) objection(s) to the contents of the subject Contingent Claim Crystallisation Notice, in particular, the reasons as to why the respective Contingent Claim should not be regarded as a legally valid and binding debt of a definite amount then actually due from the Company; and (c) any evidence or documents in support of (b) above.
"**Contingent Claim Crystallisation Determination**"	:	A written determination to be issued by the Scheme Manager to a Contingent Claimant within 38 days of receiving a Contingent Claim Crystallisation Notice from that Contingent Claimant stating whether the Accepted Contingent Claim referred to in the Contingent Claim Crystallisation Notice has been determined by the Scheme Manager to have become a legally valid and binding debt of a definite amount then actually due from the Company. In arriving at his or her determination, the Scheme Manager shall review the contents of the Contingent Claim Crystallisation Notice as well as any Contingent Claim Crystallisation Challenge(s) submitted.
"**Contingent Claim Crystallisation Notice**"	:	Means a written notice issued by a Contingent Claimant to the Scheme Manager by no later than seven (7) days after the Contingent Claim Expiry Date setting out the following information: (a) proof that his or her Contingent Claim was Accepted; (b) the basis for the Accepted Contingent Claim becoming a legally valid and binding debt of a definite amount then actually due from the Company on a date no later than the Contingent Claim Expiry Date; and (c) any evidence or documents in support of (b) above.
"**Contingent Claim Expiry Date**"	:	The date falling two (2) years after the Restructuring Effective Date in relation to all other matters.
"**Contingent Claim Extinguishment Challenge**"	:	A written notice to be issued by the subject Contingent Claimant to the Scheme Manager within 14 days from the Contingent Claimant's receipt of a Contingent Claim Extinguishment Notice indicating the Contingent Claimant's objection to the Scheme Manager's determination under the Contingent Claim Extinguishment Notice and setting out the reasons for such objection (including any supporting evidence or documents).

"**Contingent Claim Extinguishment Determination**"	:	A written determination to be issued by the Scheme Manager to a Contingent Claimant within 21 days of receiving a Contingent Claim Extinguishment Challenge from that Contingent Claimant stating whether the objections raised therein have been accepted by the Scheme Manager or whether the Scheme Manager has nonetheless determined that the subject Accepted Contingent Claim is no longer a liability.
"**Contingent Claim Extinguishment Notice**"	:	A written notice issued by the Scheme Manager to a Contingent Claimant by no later than seven (7) days after the Contingent Claim Expiry Date notifying the Contingent Claimant that his or her respective Accepted Contingent Claim has been, as determined by the Scheme Manager, extinguished, waived or compromised or is, for any other reason, no longer a liability of the Company on a date no later than the Contingent Claim Expiry Date.
"**Crystallised**"	:	In respect of an Accepted Contingent Claim: (a) the issuance of a Contingent Claim Crystallisation Determination under which the subject Accepted Contingent Claim is determined by the Scheme Manager to be a legally valid and binding debt of a definite amount then actually due from the Company; or (b) the issuance of a Contingent Claim Crystallisation Notice to which: (i) no Contingent Claim Crystallisation Challenge is issued in response within 17 days of such Contingent Claim Crystallisation Notice; and (ii) no Contingent Claim Crystallisation Determination is issued within 38 days of such Contingent Claim Crystallisation Notice.
"**Extinguished**"	:	In respect of an Accepted Contingent Claim: (a) the issuance of a Contingent Claim Extinguishment Notice to which no Contingent Claim Extinguishment Challenge is received within 14 days; or (b) the issuance of a Contingent Claim Extinguishment Determination under which the subject Accepted Contingent Claim is determined by the Scheme Manager to be no longer a liability of the Company on a date no later than the Contingent Claim Expiry Date.
"**Independent Assessor**"	:	An independent assessor appointed in accordance with the Proof Regulations.
"**Proof Regulations**"	:	The Companies (Proofs of Debt in Schemes of Arrangement) Regulation 2017 (No S 245) of Singapore.
"**Settlement Date**"	:	The date falling on or before 28 days after the Completion Date (as defined in the Restructuring Agreement).

Summary of the Proposed Scheme

Pursuant to the terms of the Proposed Scheme, upon the Proposed Scheme becoming effective:

Unsecured Claims

Holders of Accepted Unsecured Claims which are not Contingent Claims will receive a *pro rata* distribution from a cash payout and an allotment and issuance of the Debt Conversion Shares on a *pro-rata* basis, each in three (3) tranches within two (2) years and 52 days from the Restructuring Effective Date.

Contingent Claims

(a) Distributions to be made to the holders of Accepted Contingent Claims will be kept in escrow upon the Restructuring Effective Date and there will be an ongoing distribution process for the Accepted Contingent Claims that are Crystallised before the Contingent Claim Expiry Date.

(b) In respect of any Accepted Contingent Claim that is Crystallised before the Contingent Claim Expiry Date, the holder of such Accepted Contingent Claim will receive a cash and equity payout on a *pro-rata* basis.

(c) Where an Accepted Contingent Claim becomes an Extinguished Contingent Claim before the Contingent Claim Expiry Date:

    (i) 90% of the cash payout in escrow attributable to such Extinguished Contingent Claims will be shared *pro-rata* among the holders of Accepted Unsecured Claims (other than non-Crystallised and Extinguished Contingent Claims) and Accepted Debt Securities Claims;

    (ii) 10% of the cash payout in escrow attributable to such Extinguished Contingent Claims will be distributed to the relevant project staff of the Group that are responsible for the Accepted Contingent Claims having become Extinguished (provided that no payout will be paid to any person who is or was a member of the Board or the Company's senior management); and

    (iii) the full amount of the equity payout in escrow attributable to such Extinguished Contingent Claims will be shared *pro rata* among the holders of Accepted Unsecured Claims (other than non-Crystallised and Extinguished Contingent Claims).

(d) After the Contingent Claim Expiry Date, all Accepted Contingent Claims which have not Crystallised will be Extinguished. Accordingly, the cash distributions in escrow attributable to such Extinguished Contingent Claims will be distributed *pro-rata* among the holders of Accepted Unsecured Claims (other than Extinguished Contingent Claims) and Accepted Debt Securities Claims. The equity distributions in escrow attributable to such Extinguished Contingent Claims will be distributed *pro-rata* among the holders of Accepted Unsecured Claims (other than Extinguished Contingent Claims).

Debt Securities Claims

Holders of Accepted Debt Securities Claims will receive a *pro-rata* distribution of a cash payout in three (3) tranches within two (2) years and 52 days from the Restructuring Effective Date and an allotment and issuance of the Debt Conversion Shares on a *pro-rata* basis on the Settlement Date.

Subordinated Claims

Subordinated Scheme Parties with Accepted Subordinated Claims will receive a distribution of a cash payout of S$1 each.

Please refer to the Scheme Document which is accessible at https://www.hyflux.com/wp-content/uploads/2019/02/Hyflux-Scheme-dated-21-Feb-2019.pdf for more details on the terms of the Proposed Scheme.

APPENDIX B – SUMMARY OF THE DEBT RESTRUCTURING EXERCISE

The table below, which is a summarised version of the table set out in Appendix G of the Explanatory Statement to the Scheme Document (https://www.hyflux.com/wp-content/uploads/2019/02/Hyflux-explanatory-statement.pdf), sets out a summary of the Proposed Scheme relating to the Company:

<table>
<tr><th colspan="2" rowspan="2">PARTIES</th><th rowspan="2">VALUE OF CLAIMS (APPROX.)[4]</th><th rowspan="2">SHARES IN HYFLUX POST-RESTRUCTURING[5]</th><th colspan="3">EQUITY / CASH DISTRIBUTION (APPROX.)</th><th rowspan="2">TOTAL RETURNS (APPROX.)[6]</th></tr>
<tr><th>By 28 days after RED[7]</th><th>One (1) year after RED</th><th>Two (2) years after RED</th></tr>
<tr><td colspan="2">Investor</td><td></td><td>60% in exchange for S$400m investment</td><td colspan="3"></td><td></td></tr>
<tr><td colspan="2">Existing Shareholders</td><td></td><td>4% which includes approximately 1.38% existing Shares of Directors which will be given to the P&Ps[8]</td><td colspan="3"></td><td></td></tr>
<tr><td rowspan="2">Unsecured Scheme Parties</td><td colspan="2">(1) Bank Lenders - S$714m[9]
(2) MTNs - S$278m[10]
(3) Trade and other claimants - S$18m</td><td rowspan="2">27%</td><td>S$135.1m + 15.72% equity</td><td rowspan="2">Pro-rata cash and equity payout to all Unsecured Scheme Parties from escrow upon Contingent Claims being Extinguished[11]</td><td rowspan="2">Pro-rata cash and equity payout to all Unsecured Scheme Parties from escrow upon Contingent Claims being Extinguished[12]</td><td rowspan="2">S$232m[13] + S$180m[14] (assumed equity value of 27% equity)</td></tr>
<tr><td>Contingent Claimants</td><td>S$724m[52]</td><td>S$96.9m + 11.28% equity[16]</td></tr>
<tr><td rowspan="2">Debt Securities Scheme Parties</td><td>Perpetual Capital Securities</td><td>S$500m principal[17]</td><td rowspan="2">9% from Proposed Scheme
+
Approx. 1.38% from Directors' contribution of their existing Shares in the Company and scheme consideration for their Debt Securities holdings[18]</td><td rowspan="2">S$27m + 10.38% equity</td><td rowspan="2">Pro-rata cash payout to all Debt Securities Scheme Parties from escrow upon Contingent Claims being Extinguished[19]</td><td rowspan="2">Pro-rata cash payout to all Debt Securities Scheme Parties from escrow upon Contingent Claims being Extinguished[20]</td><td rowspan="2">S$27m[21] + S$69.2m[22] (assumed equity value of 10.38% equity)</td></tr>
<tr><td>Preference Shares</td><td>S$400m principal[23]</td></tr>
<tr><td colspan="2">Subordinated Scheme Parties (Group Companies)</td><td>S$106m</td><td></td><td>Nominal[24]</td><td></td><td></td><td>Nominal</td></tr>
</table>

[4] These approximations are based on the adjudication of proofs of claim by the Chairman, and may be amended if there are changes to the adjudication results following, among other things, any determination by an independent assessor as may be appointed by a party disputing the results of the Chairman's adjudication of a proof of claim.

[5] The figures below reflect the shareholding percentage of the various stakeholders of the Company on an Enlarged Issued Share Capital basis. The figures are calculated based on the assumption that a total of 18,846,839,736 Debt Conversion Shares and SMI Shares will be allotted and issued as part of the Proposed Restructuring and the total number of Shares in the Company post-restructuring will be 19,632,124,725.

[6] See footnote 4 above.

[7] Restructuring Effective Date, which will likely take place on 16 April 2019.

[8] See footnote 18.

[9] Inclusive of loan by KfW of approximately S$144 million to Hydrochem which is guaranteed by the Company (and which is excluded in the Hydrochem scheme of arrangement).

[10] S$265 million principal amount together with approximately S$13 million of accrued interest.

[11] After deducting a 10% cash incentive component to be paid to the relevant project staff responsible for extinguishment of Contingent Claims.

[12] After deducting a 10% cash incentive component to be paid to the relevant project staff responsible for extinguishment of Contingent Claims.

[13] Assuming that no Contingent Claims have been Extinguished by the Contingent Claim Expiry Date.

[14] Assuming that 60% of the Company's shareholding represents approximately S$400 million.

[15] Inclusive of crystallised debt of approximately S$75 million from bonds and guarantees that have already been called.

[16] The cash and equity payouts to the Contingent Creditors will be placed in escrow and are subject to an ongoing distribution process by the escrow agent. The cash and equity payouts will be paid to holders of Contingent Claims which are Crystallised prior to the Contingent Claim Expiry Date in a *pro-rata* manner. The remaining amounts of cash and equity payouts in respect of Extinguished Contingent Claims will be distributed among the Unsecured Scheme Parties and Debt Securities Scheme Parties at intervals of one (1) and two (2) years after the RED in accordance with the manner set out on page B14 above.

[17] Inclusive of the S$3.15 million in principal held by Directors.

[18] The Directors will be contributing their existing Shares in the Company as of the Latest Practicable Date and the scheme consideration that they are entitled to receive pursuant to the Proposed Scheme by virtue of their holdings of Debt Securities back to the pool of assets for redistribution among Debt Securities Holders.

[19] After deducting a 10% cash incentive component to be paid to the relevant project staff responsible for extinguishment of Contingent Claims.

[20] After deducting a 10% cash incentive component to be paid to the relevant project staff responsible for extinguishment of Contingent Claims.

[21] Assuming that no Contingent Claims have been Extinguished by the Contingent Claim Expiry Date.

[22] Assuming that 60% of the Company's shareholding represents approximately S$400 million.

[23] Inclusive of the S$1.202 million in principal held by Directors.

[24] S$1 per Subordinated Scheme Party.

The table below sets out a summary of the proposed scheme of arrangement relating to Hydrochem:

PARTIES	VALUE OF CLAIMS (APPROX.)[25]	EQUITY / CASH DISTRIBUTION (APPROX.)		TOTAL RETURNS (APPROX.)	
		By 28 days after RED[26]	Assuming TuasOne reaches PCOD		
General trade and other claimants	S$21.98 m	S$2.81m	Up to S$7.96m[27]	Minimum return	Assuming TuasOne reaches PCOD
				S$2.81m	S$2.81m to S$10.77m
TuasOne trade claimants	S$19.64m	S$2.90m	S$13.92m	S$2.90m	S$16.82m[28]
Subordinated scheme parties	S$254.2m	Nominal		Nominal	

The table below sets out a summary of the proposed scheme of arrangement relating to Hyflux Membrane Manufacturing:

PARTIES	VALUE OF CLAIMS (APPROX.)	EQUITY / CASH DISTRIBUTION (APPROX.)		TOTAL RETURNS (APPROX.)	
		By 28 days after RED[29]	Assuming TuasOne reaches PCOD		
General trade and other claimants	S$19.68m	S$2.98m	Up to S$7.05m[30]	Minimum return	Assuming TuasOne reaches PCOD
				S$2.98m	S$2.98m to S$10.03m
TuasOne trade claimants	S$1.57m	S$0.30m	S$1.07m	S$0.30m	S$1.37m[31]
Intercompany claimants	S$205.3m	Nominal		Nominal	

The table below sets out a summary of the proposed scheme of arrangement relating to Hyflux Engineering:

PARTIES	VALUE OF CLAIMS (APPROX.)	EQUITY / CASH DISTRIBUTION (APPROX.)		TOTAL RETURNS (APPROX.)
		By 28 days after RED[32]	Assuming TuasOne reaches PCOD	
All claimants	S$13.88m	S$4.01m		S$4.01m
Subordinated scheme parties	S$79.8m	Nominal		Nominal

[25] The total value of claims against Hydrochem amounting to S$295.82 million excludes the loan of S$144 million by KfW to Hydrochem (and which is guaranteed by the Company) since this claim is not part of the scheme of arrangement relating to Hydrochem and will instead be compromised under the Proposed Scheme relating to the Company.

[26] Restructuring Effective Date, which will likely take place on 16 April 2019.

[27] From Hydrochem's share of the net cash flow from TuasOne EPC Contract upon TuasOne PCOD after making necessary deductions under Mitsubishi Heavy Industries ("**MHI**") settlement agreement (eg, First priority payment to MHI, trade creditors' payment, cost overruns and liquidated damages).

[28] From trade creditors' payment of S$15 million under MHI settlement agreement that can only be paid to TuasOne trade creditors.

[29] Restructuring Effective Date, which will likely take place on 16 April 2019.

[30] From Hydrochem's share of the net cash flow from TuasOne EPC Contract upon TuasOne PCOD after making necessary deductions under MHI settlement agreement (eg, First priority payment to MHI, trade creditors' payment, cost overruns and liquidated damages).

[31] From trade creditors' payment of S$15 million under MHI settlement agreement that can only be paid to TuasOne trade creditors.

[32] Restructuring Effective Date, which will likely take place on 16 April 2019.

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)	• Holders of Notes, Perpetual Securities and Preference Shares. • Banks with claims under facilities and contingent claims against Hyflux Ltd. • Trade creditors of Hyflux Ltd.	**Date**: Friday, 5 April 2019 **Venue**: 1 Vista Exchange Green, Singapore 138617 (or such other place as may be notified by announcement on SGXNet) **Time**: For banks, holders of Notes and trade creditors: 12 noon For holders of Perpetual Securities and Preference Shares: 7 pm
(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	**Date**: Monday, 8 April 2019 **Venue**: Hyflux Innovation Centre, 80 Bendemeer Road, Singapore 339949

		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

*Unless otherwise defined, all capitalised terms herein shall bear the same meanings as used in the circular dated 26 March 2019 issued by the Company to its Shareholders (the "**Circular**").*

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Hyflux Ltd (the "**Company**") will be held at Hyflux Innovation Centre, 80 Bendemeer Road, Singapore 339949 on 15 April 2019 at 2.00 p.m. (Singapore time) for the purpose of considering and, if thought fit, passing with or without modification(s), the following resolutions, each of which will be proposed as an ordinary resolution:

ORDINARY RESOLUTION 1: THE PROPOSED ADOPTION OF THE PREFERENCE SHARES BUYBACK

That subject to and contingent upon (a) the Proposed Scheme coming into effect and (b) the passing of Ordinary Resolutions 2, 3 and 4:

(a) for the purposes of Section 76C of the Companies Act (Chapter 50 of Singapore), the exercise by the Directors of all the powers of the Company to purchase the Preference Shares of the Company in accordance with the terms set out in this Circular (including the maximum number of Preference Shares that may be purchased by the Company and the maximum price that may be paid by the Company for such purchase, in each case, as set out in Section 3.2 of the Circular) and the Proposed Scheme be and is hereby authorised ("**Preference Shares Buyback**");

(b) unless varied or revoked by the Company in general meeting, the authority conferred on the Directors pursuant to the Preference Shares Buyback may be exercised by the Directors at any time and from time to time during the period commencing from the date of the passing of this resolution and expiring on the earliest of:

  (a) the date on which the next annual general meeting of the Company is held or required by law to be held;

  (b) the date on which the authority conferred by the Preference Shares Buyback is revoked or varied by the Shareholders in a general meeting; and

  (c) the date on which the purchases and acquisitions of the Preference Shares pursuant to the Preference Shares Buyback are carried out to the full extent mandated.

(c) the Directors or any of them be and are hereby authorised to complete and do all such acts and things including, without limitation, executing all such documents and approving any amendments, alterations or modifications to any documents as they or he may consider necessary, desirable or expedient for the purposes of or in connection with and to give full effect to this resolution.

ORDINARY RESOLUTION 2: APPROVAL FOR THE DEBT CONVERSION SHARES ISSUANCE

That subject to and contingent upon (a) the Proposed Scheme coming into effect and (b) the passing of Ordinary Resolutions 1, 3 and 4:

(a) the Directors or any of them be and are hereby authorised to allot and issue the Debt Conversion Shares at an issue price of approximately S$0.034 per Debt Conversion Share, subject to and in accordance with the terms and conditions of the Proposed Scheme, to entitled Scheme Parties, free from all and any Encumbrances and ranking *pari passu* in all respects with the then existing Shares;

(b) the Directors or any of them be and are hereby authorised to complete and do all such acts and things including, without limitation, executing all such documents and approving any amendments, alterations or modifications to any documents as they or he may consider necessary, desirable or expedient for the purposes of or in connection with and to give full effect to this resolution; and

(c) any acts, matters and things done or performed, and/or documents signed, executed, sealed and/or delivered by the Directors or any of them in connection with the Debt Conversion Shares Issuance under the Proposed Scheme be and are hereby approved, confirmed and ratified.

ORDINARY RESOLUTION 3: APPROVAL FOR THE PROPOSED SMI INVESTMENT

That subject to and contingent upon (a) the Proposed Scheme coming into effect and (b) the passing of Ordinary Resolutions 1, 2 and 4:

(a) the Proposed SMI Investment be and is approved, confirmed and ratified;

(b) the Directors or any of them be and are hereby authorised to allot and issue the SMI Shares (for an aggregate issue price of S$400,000,000 and at an issue price of approximately S$0.034 per SMI Share) credited as fully paid up, free from all and any Encumbrances and ranking *pari passu* in all respects with all existing Shares;

(c) the Directors or any of them be and are hereby authorised to complete and do all such acts and things including, without limitation, executing all such documents and approving any amendments, alterations or modifications to any documents as they or he may consider necessary, desirable or expedient for the purposes of or in connection with and to give full effect to this resolution; and

(d) any acts, matters and things done or performed, and/or documents signed, executed, sealed and/or delivered by the Directors or any of them in connection with the Proposed SMI Investment be and are hereby approved, confirmed and ratified.

ORDINARY RESOLUTION 4: APPROVAL FOR THE PROPOSED WHITEWASH RESOLUTION

That, subject to and contingent upon (a) the Proposed Scheme coming into effect and (b) the passing of Ordinary Resolutions 1, 2 and 3, in accordance with the letter dated 25 March 2019 from the SIC, the Shareholders of the Company do hereby, on a poll taken, unconditionally and irrevocably waive their rights to receive a mandatory general offer from the Investor under Rule 14.1 of the Code as a result of or arising from the issuance of the SMI Shares.

BY ORDER OF THE BOARD

Lim Poh Fong
Company Secretary
29 March 2019

Notes:

1. A Member of the Company (other than a Relevant Intermediary*) entitled to attend and vote at the above meeting ("**Meeting**") is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).

3. The instrument appointing a proxy must be deposited at the registered office of the Company at Hyflux Innovation Centre, 80 Bendemeer Road, Singapore 339949 not less than 72 hours before the time appointed for holding the Meeting.

* "**Relevant Intermediary**" has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50 of Singapore.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

PROXY FORM

HYFLUX LTD

(Company Registration No. 200002722Z)
(Incorporated in the Republic of Singapore)

IMPORTANT:

1. Relevant intermediaries (as defined in Section 181 of the Companies Act, Chapter 50 of Singapore) may appoint more than two proxies to attend, speak and vote at the EGM.
2. This Proxy Form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by CPF/SRS investors who hold ordinary shares through their CPF/SRS funds. CPF/SRS investors should contact their respective Agent Banks/SRS operators if they have any queries regarding their appointment as proxies.
3. By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of EGM dated 29 March 2019.

PROXY FORM for
EXTRAORDINARY GENERAL MEETING

*I/We, (name) _____ with NRIC/Passport No. _____

of (address) _____
being *a member/members of HYFLUX LTD (the "**Company**") hereby appoint:

Name	**NRIC/Passport No.**	**Proportion of Shareholdings**	
		No. of Ordinary Shares	**%**
Address			

*and/or

Name	**NRIC/Passport No.**	**Proportion of Shareholdings**	
		No. of Ordinary Shares	**%**
Address			

as *my/our *proxy/proxies to attend, speak and vote on *my/our behalf at the Extraordinary General Meeting of the Company (the "**EGM**") to be held at Hyflux Innovation Centre, 80 Bendemeer Road, Singapore 339949 on 15 April 2019 at 2.00 p.m. (Singapore time) and at any adjournment thereof in the following manner as specified below.

*I/We direct *my/our *proxy/proxies to vote for or against the EGM Resolutions to be proposed at the EGM as indicated hereunder. If no specified direction as to voting is given, the *proxy/proxies may vote or abstain from voting at *his/their discretion, as *he/they will on any other matter arising at the EGM and at any adjournment thereof.

NOTE: Voting on the Resolutions will be conducted by poll. If you wish to exercise 100% of your votes **For** or **Against** the Resolution, please tick with "✓" in the corresponding box against the Resolution. If you wish to split your votes, please indicate the number of votes **For** and/or **Against** the Resolution.

No.	**Ordinary Resolutions**	**For**	**Against**
(1)	Proposed Preference Shares Buyback		
(2)	Proposed Debt Conversion Shares Issuance in connection with the Proposed Scheme		
(3)	Proposed SMI Investment		
(4)	Proposed Whitewash Resolution in connection with the Proposed SMI Investment		

Dated this ____ day of _____ 2019

Total No. of Ordinary Shares Held

_____
Signature(s) of Member(s)/Common Seal

* Delete accordingly

NOTES: SEE OVERLEAF

PROXY FORM

NOTES:

1. (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the EGM. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

   (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the EGM, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

   "**relevant intermediary**" has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50 of Singapore.

2. A proxy need not be a member of the Company.

3. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (maintained by The Central Depository (Pte) Limited), you should insert that number of shares. If you have shares registered in your name in the Register of Members (maintained by or on behalf of the Company), you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.

4. This form of proxy must be signed by the appointor or his attorney duly authorised in writing. Where the form of proxy is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer. Where a form of proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the form of proxy, failing which, the form of proxy may be treated as invalid.

5. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the EGM in accordance with its Constitution and Section 179 of the Companies Act, Chapter 50 of Singapore.

6. Completion and return of this form of proxy shall not preclude a member from attending and voting at the EGM. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the EGM in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under this form of proxy to the EGM.

7. This form of proxy must be deposited at the registered office of the Company at Hyflux Innovation Centre, 80 Bendemeer Road, Singapore 339949, not less than 72 hours before the time fixed for holding the EGM.

8. The Company shall be entitled to reject the form of proxy if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the form of proxy (including any related attachment). In addition, in the case of shares entered in the Depository Register, the Company may reject any form of proxy lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the EGM as certified by The Central Depository (Pte) Limited to the Company.

Fold Here

PROXY FORM

Affix
Postage
Stamp

HYFLUX LTD
Hyflux Innovation Centre
80 Bendemeer Road
Singapore 339949

Fold Here