Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

27 February 2019

Board of Directors
Hyflux Ltd
Hyflux Innovation Centre
80 Bendemeer Road
Singapore 339949

Dear Board Members,

HYFLUX RESTRUCTURING

1. As you may be aware, Securities Investors Association (Singapore) ("**SIAS**") represents the informal steering committee ("**P&P ISC**") for the S$500 million 6.00% perpetual capital securities (ISIN: SG31B4000005) ("**Perpetual Capital Securities**") and the S$400 million 8.00% cumulative non-convertible non-voting perpetual class A preference shares (ISIN: SG2D17969577) ("**Preference Shares**"), both issued by Hyflux Limited ("**Company**"). Unless otherwise defined, we adopt the terms defined in the scheme of arrangement proposed by the Company ("**Hyflux Scheme**").

2. Our advisors, Drew & Napier LLC and PricewaterhouseCoopers, have met with the P&P ISC and separate groups of holders of the Perpetual Capital Securities and Preference Shares. ("**P&Ps**") to solicit their views and feedback on the Hyflux Scheme. We set out below the views and serious concerns of the P&Ps with respect to the restructuring of the Hyflux Group and its adverse implications on the P&Ps.

3. An overwhelming majority of P&Ps are retail investors who have sunk their significant personal savings in the Company. Many of these retail investors have invested in what they believed to be an industry leader in the Singapore water and energy sector, as well as the holder of national strategic assets (not least, including the Tuaspring Integrated Water and Power Project). Naturally, these investors also expected stability and regular returns on their investment, based on the Company's track record. The sudden unravelling of the Company's financial position, less than 3 months after it conducted a dividend *in specie* exercise, has undoubtedly left investors disorientated and in a state of disbelief as to the scale of their potential losses.

4. Based on the current terms proposed by the Company under the Hyflux Scheme, we understand that the P&Ps will only recover:

   (a) an aggregate of S$27 million, which is approximately 3% of the aggregate principal or capital of S$500 million and S$400 million for the Perpetual Capital Securities and the Preference Shares respectively, and

   (b) approximately 10.4% of the enlarged share capital of the Company.

   In return, all of the P&Ps' existing liabilities will be fully compromised under the terms of the Hyflux Scheme.

<u>The current proposal in the Scheme is not acceptable to P&Ps</u>

5. The terms in the Hyflux Scheme are not acceptable for the P&Ps for the following reasons:

   (a) The proposed 3% cash return to the P&Ps is a meagre fraction of the original principal.

   (b) While a lot has been said about the "potential upside" from the shares in the Company post-restructuring, the Company simply has not provided sufficient financial information and/or clarity to the P&Ps to meaningfully assess the value of these shares.

   (c) It follows that even after the restructuring process, the P&Ps will still remain stranded in considerable uncertainty as to return on their investments for the foreseeable future.

   (d) The scale of losses for the P&Ps which number more than 34,000, will be unprecedented.

6. The proposed payout mechanism under the Hyflux Scheme is also unacceptable if any of the Contingent Claims does not crystallise. In particular:

   (a) If any of the Contingent Claims does not crystallise, 80% of that Contingent Claim's cash entitlement will be distributed only to the Unsecured Claims, and not to the P&Ps.

   (b) Further, to-date no information has been provided by the Company as to the identity of the Management Payout Recipients. This is particularly troubling as the sum allocated to these recipients potentially amounts to approximately S$18.8 million in the event that all the Contingent Claims do not crystallise.

<u>Our Alternative Proposal</u>

7. The current proposal clearly favours the Unsecured Claims as they enjoy all the upside from the restructuring, which is clearly unequitable and thereby it leaves the success of the restructuring in dire straits. Hence, our alternative proposal herein.

   While we understand that the P&Ps stand to receive nothing in a liquidation scenario, the P&Ps require a more equitable distribution of the assets of the Company which would better reflect the investment and trust that the P&Ps have previously placed in the Company.

8. At a very minimum, any returns over and above the projected liquidation recovery of 8.7% to the Unsecured Claims (being the higher end of the recovery estimated by the Company's financial advisors) should be proportionately distributed between the Unsecured Claims and the P&Ps. If the Unsecured Claims receive a return of x% higher than 8.7%, the P&Ps should receive the same increased return of x%. In this respect:

   (a) the initial split of S$259 million into S$232 million and S$27 million for the Unsecured Claims and the P&Ps respectively is acceptable if the total Unsecured Claim remains at

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S$1.9 billion (i.e. if all Contingent Claims are expected to be crystallised). The P&Ps may be prepared to accept this even if it means Unsecured Claims receive a slightly higher increased recovery of 3.5% (over and above the liquidation recovery of 8.7%) as compared to a 3% recovery for the P&Ps; and

(b) in the event any Contingent Claim does not crystallise, the recovery allocated to such Contingent Claim (including the Contingent Claim by MHI of approximately S$230 million) should be distributed proportionately between the Unsecured Claims and the P&Ps.

9. Please urgently share this letter with the Investor as well as the holders of the Unsecured Claims. Without a satisfactory response on the matters set out above, we are of the view that the P&Ps are highly likely to forego the paltry and inequitable return as currently envisaged by the Hyflux Scheme and vote against its acceptance. If the Hyflux Scheme is not carried and the Company goes into liquidation, the holders of the Unsecured Claims will stand to lose more than if they were to accept our alternative proposal as set out herein.

10. We sincerely hope that all stakeholders will give the contents of this letter their serious consideration as we feel that there should be a win-win resolution in the restructuring. Please let us have a response by 8 March 2019.

Yours sincerely

David Gerald
President/CEO