



8 February 2019

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

Through Ms Olivia Lum,
Executive Chairman &
Group Chief Executive Officer

Questions to Hyflux Board

Dear Olivia and Board members,

SIAS, representing the interests of the numerous stakeholders of various securities, is seriously concerned that many questions regarding the operations, valuation and accountability of the board of directors of Hyflux have not been addressed, so as to help securities holders make an informed decision, with respect to the restructuring.

Having engaged the various stakeholders, SIAS now poses the following questions to the Hyflux board and its advisers to address as we do not want to fail our duty to our stakeholders:

1. It appears to us, subject to your clarification, that almost every Hyflux asset has material faults and defects which can be categorised as follows:

- a) they have operational defects and cannot operate at or close to capacity - Qurayyat, Magtaa;
- b) are lossmaking and cannot service their debt with cashflow from operations - Tuaspring and Tianjin Dagang; or
- c) they are not complete - Tuasone, Tlemcen.

Q: What level of scrutiny did the BOD apply to the operations of the main assets of Hyflux? Why were these faults and defects not announced or described in annual reports?

2. Engineering, procurement and construction ("EPC") contracts are susceptible to losses due to the fixed price nature of contracts and thin profit margins.

Q: How was pricing for Hyflux EPC contracts determined?

Q: Did the Board approve tenders including pricing for large EPC projects?

Q: Did the BOD monitor progress on these contracts and were they aware of issues as they arose at these projects?

3. Hyflux has an operations and maintenance ("O&M") business with a large orderbook of future revenues.

Q: Is the O&M business a source of future value for Hyflux current stakeholders? If not, why not?

Q: How were these O&M contracts priced? Did the Board approve their pricing?

4. Hyflux raised SGD500 million of perpetual securities and SGD400 million of preference shares which are currently outstanding.

Q: How were these funds used and how did this compare to the use of funds set out in the respective prospectuses?

5. Tuaspring was part funded by a shareholder loan of SGD57 million.

Q: How was this loan from Hyflux to Tuaspring funded?

6. Hyflux Group has generated negative operating cashflow in every year since 2009.

Q: Was this highlighted to bondholders and shareholders? If so, in what form?

Q: Why did the Board continue to pay dividends, when the operating cashflow was negative and accumulate more debt during this time?

7. Despite the negative operating cashflow, Hyflux reported profits in each years prior to 2017.

Q: How was this possible?

8. Tuaspring is loss making and cannot meet repayments to Maybank for its project financing debt at Tuaspring.

Q: What is the monthly cash burn at Tuaspring ? What are Tuaspring's current cash reserves?

9. On 30 May 2016, Hyflux raised SGD500 million of perpetual securities with an interest rate of 6%. In July 2016, Hyflux repaid SGD175 million of perpetual securities which had a coupon of 4.8%.

Q: Why did the BOD refinance the lower dividend perpetual securities with similar securities paying a higher dividend?

10. On 22 March 2018, KPMG provided a clean audit report for Hyflux Group for the financial year 2017. On 22 May 2018, Hyflux Limited and a number of subsidiaries filed for court protection from creditors.

Q: What happened between 22 March 2018 and 22 May 2018? At what point did the BOD know or Hyflux management realise that Hyflux was unable to meet its debt obligations? Why didn't the BOD seek help earlier?

11. According to EY, SGD2.8 billion of creditors could expect to receive SGD86.5 million – 202.1 million in a liquidation.

Q: On what basis did the audit committee, the Board and KPMG establish that preparing the accounts for the year ended 31 December 2017 on a going concern basis was appropriate?

Q: What basis did KPMG “Conclude on the appropriateness of management’s use of the going concern basis of accounting”?

12. In the time that shareholders and bondholders have seen their entire investment destroyed, Olivia Lum has received over SGD60 million in dividends from her 34% ordinary shareholding in Hyflux. In addition, she has received significant salary, benefits and bonuses and earned between SGD750,000 and USD1 million in 2017, a year in which Hyflux reported losses of SGD115.6 million and a period which was five months prior to Hyflux Group filing for Court protection from creditors and when Hyflux has been losing huge amounts of cash and building projects.

Q: Is it proposed that Olivia has any role in Hyflux group after its restructuring – if so, on what basis?

Q: Why isn't Olivia contributing her gains from Hyflux Group to the restructuring process?

13. Page 34 of Hyflux’s 2017 Annual Report reports that in 2017, the total remuneration paid to Hyflux’s key executives for the financial year ended 2017 was SGD2,695,134.20, with Olivia Lum receiving between SGD750,000 and SGD1 million.

Q: How was Hyflux able to justify such large remuneration given Hyflux’s financial position and the performance of the Hyflux Group businesses and assets?

These key executives would have been aware of what was going on and are largely responsible for what has transpired.

Q: Many of the executives also appear to be shareholders. Are these executives contributing anything to the restructuring?

14. The 2017 annual report (on page 33) states that the Remuneration Committee “ensures that remuneration arrangements demonstrate a clear link between reward and performance.”

Q: What was the role the Hyflux Group Remuneration Committee during this time?

Q: On what basis did they establish the remuneration paid to Hyflux executives in 2017 was appropriate?

15. It must be incumbent on Hyflux Group to investigate through an independent investigation on the role of all key executives in the collapse of Hyflux group.

Q: Has this commenced? Will the results be made public?

16. **Q: Has any investigation been carried out into the role of the auditors? Are they to contribute to the restructuring?**

17. **Q: Why did Hyflux not pay the distribution for the PCS holders when just 3 months before, it conducted the Hyfluxshop dividend in specie exercise to ordinary shareholders? Did it know when the dividend in specie exercise was conducted that it would be unable to pay the distribution for the PCS holders?**

18. **Q: On what basis were all the major assets of Hyflux being valued? Why were there no impairment / write-downs being made on these investments?**

19. **Q: What is the current market value for the Tuaspring asset?**

20. Hyflux claims that its financial issues were caused by the low electricity prices and thus Tuaspring was unable to make a profit. A liquidation of Hyflux would compromise SGD2.6 – 2.7 billion of outstanding and contingent debt.

Q: This cannot be entirely as a result of a weak electricity market in Singapore?

Q: What are the other factors that have resulted in the current financial position of Hyflux?

21. Tuaspring has been loss making since it commenced operations in 2015.

Q: Why did the BOD not consider it prudent to write down / impair the asset?

Q: On what basis was Tuaspring being valued at SGD1.4 billion? This has proven to be overstated by at least SGD900 million as Hyflux has confirmed any bids received in the 2018 sale process for Tuaspring were for less than Maybank’s outstanding project finance debt of approximately SGD500 million?

22. EY have indicated that in a liquidation, unsecured creditors are estimated to receive 3.8% to 8.7% recovery and SGD900 million perpetual and preference shareholders received zero return.

Q: Can EY state the assumptions used to justify its calculation of the liquidation value?

23. By releasing the restructuring terms one month before the intended scheme meeting, Hyflux is providing **very little time** for investors to evaluate the deal.

Q: Why is Hyflux setting such a rushed timetable?

SIAS's role has always been to bring parties together to find a reasonable solution on a win-win basis. Therefore, in the interest of transparency and accountability, please publish the responses to the above questions. This will help securities holders have a better understanding of the current state of the company and make informed decisions, with respect to the proposed restructuring.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Gerald'.

David Gerald
President and CEO

Cc: Wong Partnership & EY