PROVENANCE CAPITAL PTE. LTD.
(Company Registration Number: 200309056E)
(Incorporated in the Republic of Singapore)
96 Robinson Road #13-01 SIF Building
Singapore 068899

22 July 2020

To: The Independent Directors of Sembcorp Marine Ltd
(deemed to be independent in respect of the Whitewash Resolution)

Mr Bob Tan Beng Hai	(Independent Director)
Mr Eric Ang Teik Lim	(Independent Director)
Mrs Gina Lee-Wan	(Independent Director)
Mr William Tan Seng Koon	(Independent Director)
Mr Patrick Daniel	(Independent Director)
Mr Tan Wah Yeow	(Independent Director)
Mr Wong Weng Sun	(President & CEO)

Dear Sirs/Mdm,

THE WHITEWASH RESOLUTION IN CONNECTION WITH THE PROPOSED TRANSACTION

*Unless otherwise defined or the context otherwise requires, all terms used herein have the same meanings as defined in the circular to the shareholders of Sembcorp Marine Ltd (“**Shareholders**”) dated 22 July 2020 (“**Circular**”).*

For ease of understanding, we have also in the relevant context referred to the Company, the Shares and EGM as SCM, SCM Shares and SCM EGM respectively.

1. INTRODUCTION

1.1 On 8 June 2020 (“**Announcement Date**”), Sembcorp Industries Ltd (“**SCI**”) and Sembcorp Marine Ltd (“**SCM**” or “**Company**”, together with its subsidiaries, “**Group**”) made a joint media release on the proposed recapitalisation of SCM through a S$2.1 billion renounceable rights issue (“**Rights Issue**”), followed by a proposed demerger of the two companies via a distribution in *specie* (“**SCI Distribution**”) of SCI’s stake in the recapitalised SCM to shareholders of SCI (“**SCI Shareholders**”). The boards and management teams of SCI and SCM believe, *inter alia*, that the Rights Issue and SCI Distribution (collectively, the “**Transaction**”) will strengthen the two companies’ financial positions and is in the best interests of their respective shareholders.

The Company also released its announcement on the Announcement Date setting out details of the Rights Issue and the SCI Distribution (“**Announcement**”).

SCI, a company listed on the Singapore Exchange and Securities Trading Limited (“**SGX-ST**”) with a market capitalisation of approximately S$3.2 billion, is the single largest shareholder of the Company, which in-turn is also listed on the SGX-ST with a market capitalisation of approximately S$1.0 billion as at the Latest Practicable Date. SCI holds 1,274,270,764 shares in the Company (“**Shares**”), representing 60.9% of the issued share capital of the Company as at the Latest Practicable Date.

Based on the issued share capital of the Company comprising 2,092,538,174 Shares in issue (excluding 416,840 treasury shares) as at the Latest Practicable Date, the Rights Issue will involve the issuance of 10,462,690,870 new ordinary shares in the capital of the Company (“**Rights Shares**”) at the issue price of S$0.20 (“**Issue Price**”) for each Rights Share, on the basis of five Rights Shares for every one existing Share held by entitled Shareholders. The Rights Issue will raise gross proceeds of approximately S$2.1 billion.

SCI has irrevocably undertaken, pursuant to the SCI Undertaking Agreement dated 8 June 2020, to, *inter alia*, subscribe and pay in full for its full entitlement of approximately S$1.27 billion of Rights Shares under the Rights Issue ("**SCI *Pro Rata* Rights Shares**") and subscribe and pay in full for, or procure the subscription and payment in full of, if available, excess Rights Shares for up to an additional amount of approximately S$0.23 billion ("**SCI Excess Rights Shares**"), provided the aggregate amount payable for these Rights Shares ("**SCI Undertaken Rights Shares**" and "**SCI Undertaken Rights Shares Subscription Amount**") will not exceed S$1.5 billion. SCI's obligation to pay the SCI Undertaken Rights Shares Subscription Amount will be set-off against the equivalent amount of the principal amount of S$1.5 billion outstanding subordinated loan owed to it by the Company ("**Subordinated Loan**"). In addition, the Company will utilise either the cash proceeds received from the Rights Issue or its available cash balances to settle the full repayment of the Subordinated Loan (including any outstanding interest and any other agreed amounts) by the Loan Repayment Date (as defined in the Circular).

The remaining amount of approximately S$0.6 billion of the Rights Issue has been underwritten by DBS Bank Ltd ("**DBS Bank**"), the Financial Adviser, Lead Manager and Underwriter for the Rights Issue ("**Underwritten Rights Shares**"). DBS Bank has in-turn entered into a sub-underwriting agreement ("**Sub-Underwriting Agreement**") with Startree Investments Pte. Ltd. ("**Startree**"), a wholly-owned subsidiary of Temasek Holdings (Private) Limited ("**Temasek**"), to subscribe or procure one or more Temasek Companies (as defined in the Circular) to subscribe for the Underwritten Rights Shares, to the extent that there is a shortfall in the valid subscriptions to the Rights Issue after taking into consideration the SCI Undertaken Rights Shares.

Accordingly, all the Rights Shares to be issued pursuant to the Rights Issue, if proceeded with, will be fully subscribed.

The terms of the Rights Issue have been determined after taking into account precedent transactions, the transaction size and discussions with DBS Bank.

1.2 On the basis that all necessary approvals are obtained, following the Rights Issue, SCI will then proceed with the SCI Distribution. The SCI Distribution involves the distribution in *specie* of all the Shares held by SCI to the SCI Shareholders on a *pro rata* basis following the completion of the Rights Issue.

As at the Latest Practicable Date, Temasek and parties acting in concert with it ("**Temasek Concert Party Group**") hold an aggregate of 882,236,820 SCI Shares, representing 49.4% of the issued share capital of SCI comprising 1,786,431,697 SCI Shares in issue (excluding 1,116,035 treasury shares).

Following the completion of the Rights Issue and the SCI Distribution, it is envisaged that the Temasek Concert Party Group will hold in aggregate more than 30% of the enlarged issued share capital of the Company.

Pursuant to Rule 14.1 of the Singapore Code on Take-overs and Mergers ("**Code**"), where (a) any person who 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 in the company; or (b) any person who together with persons acting in concert with him, holds not less than 30% but not more than 50% of the voting rights in the company and such person, or any person acting in concert with him, acquires in any period of six months additional shares carrying more than 1% voting rights, he is required to make a mandatory general offer for all the shares in the company which he and/or persons acting in concert with him do not already own or control ("**Mandatory Offer**").

As the distribution of SCM Shares held by SCI to its shareholders pursuant to the SCI Distribution upon completion of the Rights Issue will trigger an obligation for the Temasek Concert Party Group to make a general takeover offer for SCM, an application was made to seek an exemption from the Securities Industry Council ("**SIC**") to waive the obligation of the Temasek Concert Party Group to make the Mandatory Offer ("**Whitewash Waiver**") by reason of the SCI Distribution.

On 5 June 2020, the SIC granted the Whitewash Waiver to the Temasek Concert Party Group, subject to the satisfaction of certain conditions including, *inter alia*, (i) the approval of the whitewash resolution ("**Whitewash Resolution**") by a majority of the Shareholders who are independent of the Temasek Concert Party Group ("**Independent Shareholders**") by way of a poll at an extraordinary general meeting of the Company ("**EGM**"); and (ii) the appointment by the Company of an independent financial adviser ("**IFA**") to advise the Independent Shareholders on the Whitewash Resolution. To rely on the Whitewash Waiver, the Whitewash Resolution must be obtained within 3 months from 5 June 2020 and the SCI Distribution must be completed within 3 months from the date on which the approval of the Independent Shareholders for the Whitewash Resolution is obtained.

Provenance Capital Pte. Ltd. ("**Provenance Capital**") has been appointed by the Company as the IFA to advise the directors of the Company who are considered independent for purposes of making the recommendation to Independent Shareholders in relation to the Whitewash Resolution ("**Independent Directors**").

1.3 The directors of the Company ("**Directors**") are as follows:

(i) Tan Sri Mohd Hassan Marican, Chairman & Independent Director
(ii) Mr Bob Tan Beng Hai, Independent Director
(iii) Mr Eric Ang Teik Lim, Independent Director
(iv) Mrs Gina Lee-Wan, Independent Director
(v) Mr William Tan Seng Koon, Independent Director
(vi) Mr Patrick Daniel, Independent Director
(vii) Mr Tan Wah Yeow, Independent Director
(viii) Mr Koh Chiap Khiong, Non-Executive and Non-Independent Director
(ix) Mr Wong Weng Sun, President & CEO

Tan Sri Mohd Hassan Marican is also an Independent Director of SCI. Mr Koh Chiap Khiong is a director on other subsidiaries and associated companies of SCI (besides the Company) and is regarded as a Non-Independent Director by virtue of his employment with SCI. They are therefore not considered independent in respect of the Whitewash Resolution. Accordingly, they will abstain from deliberating and making any recommendation as Directors in respect of the Whitewash Resolution.

Save for Tan Sri Mohd Hassan Marican and Mr Koh Chiap Khiong, the remaining Directors, namely, Mr Bob Tan Beng Hai, Mr Eric Ang Teik Lim, Mrs Gina Lee-Wan, Mr William Tan Seng Koon, Mr Patrick Daniel, Mr Tan Wah Yeow and Mr Wong Weng Sun are considered independent for purposes of making the recommendation to Independent Shareholders in relation to the Whitewash Resolution and will not be required to abstain from voting their Shares on the Whitewash Resolution.

1.4 This letter ("**Letter**") is therefore addressed to the Independent Directors and sets out, *inter alia*, our evaluation of the terms of the Transaction and opinion on the Whitewash Resolution (when considered in the context of the Transaction). This Letter forms part of the Circular which provides, *inter alia*, the details of the Transaction, the Whitewash Resolution and the recommendation of the Independent Directors.

1.5 It should be noted that the Rights Issue and the SCI Distribution are inter-conditional upon each other.

The Rights Issue is subject to Shareholders' approval at the EGM, and in this respect, SCI, as the single largest Shareholder, has irrevocably undertaken to the Company, to the extent not prohibited under applicable laws and regulations (including the Listing Manual), to vote or procure the voting of all its Shares in favour of the resolution to approve the Rights Issue, including the allotment and issue of the Rights Shares pursuant to the Rights Issue. The Rights Issue is also conditional upon the Whitewash Resolution being approved by Independent Shareholders at the EGM, in which the Temasek Concert Party Group, including SCI, as well as parties not independent of them will need to abstain from voting on the Whitewash Resolution at the EGM.

The SCI Distribution is subject to approval by SCI Shareholders at the EGM of SCI ("**SCI EGM**") and is also conditional upon the approval of the Whitewash Resolution by the Independent Shareholders at the SCM EGM.

The Rights Issue and the SCI Distribution are inter-conditional upon each other and subject to, *inter alia*, the Rights Issue Resolution and the Whitewash Resolution being approved by the Shareholders at the SCM EGM, and the SCI Distribution Resolution being approved by the SCI Shareholders at the SCI EGM. In the event that any of the resolutions is not passed, neither the Rights Issue nor the SCI Distribution will be proceeded with.

2. TERMS OF REFERENCE

Provenance Capital has been appointed as the IFA to advise the Independent Directors in respect of the Whitewash Resolution. We are not and were not involved or responsible, in any aspect, in the negotiations in relation to the Transaction and/or the Whitewash Resolution nor were we involved in the deliberations leading up to the decision on the part of the Directors to propose the Transaction and/or the Whitewash Resolution or to obtain the approval of the Independent Shareholders for the Whitewash Resolution, and we do not, by this Letter, warrant the merits of the Transaction and/or the Whitewash Resolution other than to express an opinion on whether the terms of the Transaction taken as a whole are fair and reasonable, and the Whitewash Resolution, when considered in the context of the Transaction, is not prejudicial to the interest of the Independent Shareholders.

It is not within our terms of reference to evaluate or comment on the legal, strategic, commercial and financial merits and/or risks of the Transaction and/or the Whitewash Resolution or to compare its relative merits *vis-à-vis* alternative transactions previously considered by the Company (if any) or that may otherwise be available to the Company currently or in the future, and we have not made such evaluation or comment. Such evaluation or comment, if any, remains the sole responsibility of the Directors and/or the management of the Company ("**Management**") although we may draw upon the views of the Directors and/or the Management 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 Letter.

In the course of our evaluation, we have held discussions with the Directors and Management and/or their professional advisers and have examined and relied on publicly available information collated by us as well as information provided and representations made to us, both written and verbal, by the Directors, the Management and the professional advisers of the Company, including information contained in the Circular. We have not independently verified such information or representations, whether written or verbal, and accordingly cannot and do not make any representation or warranty, express or implied, in respect of, and do not accept any responsibility for the accuracy, completeness or adequacy of such information or representations.

We have not independently verified and have assumed that all statements of fact, belief, opinion and intention made by the Directors in the Circular have been reasonably made after due and careful enquiry. Whilst care has been exercised in reviewing the information on which we have relied on, we have not independently verified the information but nevertheless have made such reasonable enquiries and judgment as were deemed necessary and have found no reason to doubt the accuracy or reliability of the information and representations.

Save as disclosed, we would like to highlight that all information relating to the Transaction, the Whitewash Resolution, the Company and/or the Group that we have relied upon in arriving at our recommendation or advice has been obtained from publicly available information and/or from the Company. We have not independently assessed and do not warrant or accept any responsibility as to whether the aforesaid information adequately represents a true and fair position of the financial, operational and business affairs of the Company and/or the Group at any time or as at 15 July 2020, being the Latest Practicable Date referred to in the Circular. We have nevertheless made reasonable enquiries and exercised our judgment on the reasonable use of such information, as were deemed necessary, and have found no reason to doubt the accuracy or reliability of the information and representations.

The scope of our appointment does not require us to conduct a comprehensive independent review of the business, operations or financial condition of the Company and/or the Group, or to express, and we do not express, a view on the future growth prospects, value and earnings potential of the Company and/or the Group after the Transaction. Such review or comment, if any, remains the responsibility of the Directors and the Management, although we may draw upon their views or make such comments in respect thereof (to the extent required by the Code and/or the listing manual ("**Listing Manual**") of the SGX-ST and/or deemed necessary or appropriate by us) in arriving at our advice as set out in this Letter. We have not obtained from the Company and/or the Group any projection of the future performance including financial performance of the Company and/or the Group and further, we did not conduct discussions with the Directors and the Management on, and did not have access to, any business plan and financial projections of the Company and/or the Group. In addition, we are not expressing any view as to the prices at which the Shares may trade or the future value, financial performance or condition of the Company and/or the Group, upon or after the completion of the Transaction or if the Rights Issue Resolution and/or the Whitewash Resolution is not approved by Shareholders at the SCM EGM or the SCI Distribution Resolution is not approved by SCI Shareholders at the SCI EGM, as the case may be.

We have not made an independent evaluation or appraisal of the assets and liabilities of the Company and/or the Group, (including without limitation, property, plant and equipment) and we have not been furnished with any such evaluation or appraisal. As such, we will be relying on the disclosures and representations made by the Company on the value of the assets and liabilities, and profitability of the Company and/or the Group.

Our view as set out in this Letter is based upon the market, economic, industry, monetary and other conditions (if applicable) prevailing as of the Latest Practicable Date and the information provided and representations provided to us as of the Latest Practicable Date. In arriving at our opinion, with the consent of the Directors or the Company, we have taken into account certain other factors and have been required to make certain assumptions as set out in this Letter. We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date that may affect our opinion contained herein. Shareholders should further take note of any announcements relevant to the Transaction and/or the Whitewash Resolution which may be released by the Company after the Latest Practicable Date.

In rendering our advice and giving our recommendations, we did not have regard to the specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any Independent Shareholder or any specific group of the Independent Shareholders. As each Independent Shareholder may have different investment objectives and profiles, we recommend that any individual Independent Shareholder or group of Independent Shareholders who may require specific advice in relation to his or their investment portfolio(s) or objective(s) consult his or their stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

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

Whilst a copy of this Letter may be reproduced in the Circular, neither the Company, the Directors nor any Shareholders may reproduce, disseminate or quote this Letter (or any part thereof) for any purpose, other than for the purpose of the EGM and for the purpose of the Whitewash Resolution, at any time and in any manner, without the prior written consent of Provenance Capital in each specific case.

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

Our opinion in relation to the Whitewash Resolution should be considered in the context of the entirety of this Letter and the Circular.

Responsibility Statement by the Directors

The Directors have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, information and representations provided to us by the Company are accurate. They have also confirmed that, upon making all reasonable enquiries and to the best of their knowledge and belief, all material information available to them in connection with the Transaction, the Whitewash Resolution, the Company and/or the Group which are relevant to the Whitewash Resolution (including the Transaction) have been disclosed to us, that such information is true, complete and accurate in all material respects and that there is no other material information or fact, the omission of which would cause any information disclosed to us or the facts of or in relation to the Transaction, the Whitewash Resolution, the Company and/or the Group stated in the Circular to be inaccurate, incomplete or misleading in any material respect. The Directors have jointly and severally accepted full responsibility for such information described herein.

3. INFORMATION ON THE COMPANY AND THE GROUP

3.1 Overview

The Company is listed on the Mainboard of the SGX-ST with a market capitalisation of approximately S$1.0 billion as at the Latest Practicable Date.

The Company provides engineering solutions to the global offshore, marine and energy industries. Headquartered in Singapore, the Company has close to 60 years of track record in the design and construction of rigs, floaters, offshore platforms and specialised vessels, as well as the repair, upgrading and conversion of different ship types. The Company's customers include major energy companies, owners of floating production units, shipping companies, and cruise and ferry operators. The Company operates shipyards and other facilities strategically located in Singapore, Indonesia, the United Kingdom, Norway and Brazil.

The Board of Directors consists of 9 Directors, of whom 7 are considered independent for purposes of making the recommendation to Independent Shareholders in relation to the Whitewash Resolution as set out in Section 1.3 of this Letter.

As at the Latest Practicable Date, the Company has an issued share capital comprising 2,092,538,174 Shares (excluding 416,840 treasury shares).

Pursuant to the SCM PSP 2010 and SCM RSP 2010, there are outstanding awards in respect of a total of approximately 2.1 million Shares as at 30 June 2020 which the Company does not expect to release on or prior to the record date for the purpose of the determining entitlements to the Rights Issue ("**Record Date**").

The Company may, at its sole discretion, determine whether any adjustments would be required with respect to the share awards granted under the various shares schemes, including SCM PSP 2010 and SCM RSP 2010 to take into account the Rights Issue so that the participants under these schemes will not be adversely affected thereby.

Save for the above, the Company does not have any other outstanding instruments convertible into, rights to subscribe for, or options in respect of, Shares or securities which carry voting rights in the Company as at the Latest Practicable Date.

The Rights Issue will increase the number of existing issued Shares by 5-fold based on the 5-for-1 Rights Issue, and will raise new equity of approximately S$2.1 billion for the Company's recapitalisation, of which S$1.5 billion will be utilised to settle and/or repay the Subordinated Loan from SCI and the balance for working capital and general corporate purposes, including debt servicing.

Presently and prior to the SCI Distribution, the Company is a 60.9%-owned subsidiary of SCI, in which the Temasek Concert Party Group has a 49.4% shareholding interest. Following the completion of the Rights Issue and the SCI Distribution, SCI will cease to be a shareholder of the Company and the Company will cease to be a subsidiary of SCI. Instead, the Temasek Concert Party Group will own in aggregate more than 30% of the enlarged issued share capital of the Company.

Hence, the Whitewash Waiver has been sought and obtained from the SIC subject to, *inter alia*, the approval of the Whitewash Resolution by a majority of the Independent Shareholders by way of a poll at the EGM.

3.2 Financial information of the Group

The financial performance of the Group was affected by the prolonged and severe downturn in the offshore and marine industry since 2015 due to profound structural changes in the energy industry and intensifying international competition. Since then, with reduced order books for its drilling rigs and other major offshore projects, the Group's financial performance had suffered a steep decline, especially in the last 2 financial years ended 31 December 2018 ("**FY2018**") and 31 December 2019 ("**FY2019**"). This had put significant pressure on the Company's liquidity and working capital requirements.

In July 2019, SCI injected S$1.5 billion in cash into the Company via the Subordinated Loan to strengthen the Company's financial position. The Subordinated Loan was used to retire around S$1.5 billion of borrowings to improve the Company's balance sheet.

In the current financial year ending 31 December 2020 ("**FY2020**"), the Company was unexpectedly hit by the COVID-19 pandemic and the sudden collapse in oil prices. This led to massive capital expenditure cuts by oil and gas companies and deferrals of investment decisions. The Government's COVID-19 directives, which resulted in the temporary stand-down of yard activities, had caused project execution delays. COVID-19 also disrupted supply chains and added further serious uncertainties going forward. These developments have hit the Company's operating cash flows and financial situation. The Company therefore urgently needs to recapitalise, address its liquidity requirements and strengthen its balance sheet.

The above had impacted the financial performance and financial position of the Group as shown below.

3.2.1 Financial performance of the Group

We set out below a summary of the financial results of the Group for the last two financial years, FY2018 and FY2019, and the latest interim financial results of the Group for the 6 months ended 30 June 2020 ("**1H2020**") (with the corresponding period in the preceding year for the 6 months ended 30 June 2019 ("**1H2019**").

	Audited		Unaudited	
S$'000	**FY2018**	**FY2019**	**1H2019**	**1H2020**
Turnover	**4,887,866**	**2,882,560**	**1,541,874**	**906,199**
Cost of sales	(4,884,772)	(2,974,378)	(1,515,444)	(1,100,784)
Gross profit/(loss)	**3,094**	**(91,818)**	**26,430**	**(194,585)**
Other operating income	49,608	44,879	21,668	93,150
Other operating expenses	(2,811)	(6,325)	(959)	(24,511)
General and administrative expenses	(102,214)	(85,526)	(44,469)	(46,827)
Operating (loss)/profit	**(52,323)**	**(138,790)**	**2,670**	**(172,773)**
Finance income	55,026	93,275	47,696	29,909
Finance costs	(101,356)	(130,027)	(65,516)	(79,000)
Non-operating income	141	185	-	501
Share of results of associates and joint ventures, net of tax	(2,385)	(1,603)	(1,193)	550
Loss before tax	**(100,897)**	**(176,960)**	**(16,343)**	**(220,813)**
Tax credit	22,531	36,773	7,572	26,476
Loss for the year/period	**(78,366)**	**(140,187)**	**(8,771)**	**(194,337)**
Loss attributable to:				
Owners of the Company	(74,131)	(137,174)	(6,830)	(192,146)
Non-controlling interests	(4,235)	(3,013)	(1,941)	(2,191)
Loss for the year/period	**(78,366)**	**(140,187)**	**(8,771)**	**(194,337)**
Earnings/(Loss) before interest, tax, depreciation and amortisation ("**EBITDA**")	143,123	103,678	125,071	(72,170)

Source: *Company's annual report for FY2019, results announcement for 1H2020 and Management*

FY2019 vs FY2018

Turnover decreased by 41.0% from S$4.89 billion in FY2018 to S$2.88 billion in FY2019 due mainly to lower revenue recognition from rigs and floaters and offshore platform projects which was mitigated by higher repair and upgrade revenue.

The Group recorded a positive but lower EBITDA of S$103.7 million in FY2019, a decline of 27.6% from the EBITDA of S$143.1 million in FY2018.

However, at the operating and net level, the Group posted much higher losses in FY2019 compared to FY2018. Loss before tax for the year increased to S$177.0 million in FY2019 compared to S$100.9 million in FY2018 due mainly to the accelerated depreciation of S$48 million arising from Tanjong Kling Yard and continued low overall business volume. Total depreciation and amortisation charges were S$242.5 million in FY2019, an increase of 24.1% compared to S$195.4 million in FY2018.

Financial results of the Group for FY2019 were also affected by finance cost net of finance income.

Finance income increased by 69.5% from S$55.0 million in FY2018 to S$93.3 million in FY2019 due mainly to interest income from a customer for deferred payments granted.

Finance cost increased by 28.3% from S$101.4 million in FY2018 to S$130.0 million in FY2019 due mainly to higher borrowings compared to the corresponding period in 2018 as well as recognition of interest expense on lease liabilities upon the adoption of SFRS(I) 16 - Leases on 1 January 2019. The Group had net debt of S$4.01 billion as at 31 December 2019 compared to S$3.39 billion as at 31 December 2018.

The loss for FY2019 was partly offset to some extent by profits from the Repairs and Upgrades business, which rose on improved margins and better product mix.

Notwithstanding the above, the Group recorded a loss attributable to owners of the Company of S$137.2 million in FY2019 compared to the corresponding loss of S$74.1 million in FY2018.

With the challenges facing the Group, in particular supply chain disruptions due to the COVID-19 virus outbreak which could affect execution of projects and intense competition, the Group expects the trend of losses to continue into FY2020.

First quarter interim business update

On 13 May 2020, the Company provided its interim business update for the first quarter ended 31 March 2020 ("**1Q2020**"). The Company expects the trend of losses to continue in the foreseeable quarters.

1H2020 vs 1H2019

Turnover decreased by 41.2% from S$1.54 billion in 1H2019 to S$0.91 billion in 1H2020 due mainly to lower revenue recognition from rigs and floaters which was mitigated by higher revenue recognition from offshore platforms, specialised shipbuilding as well as repairs & upgrades projects. The lower revenue recognition was attributed to the adverse impact from the COVID-19 pandemic resulting in delays in the execution and completion of existing projects.

The Group recorded a negative EBITDA of S$72.2 million in 1H2020 compared to a positive EBITDA of SS$125.1 million in 1H2019, a significant deterioration in results in 1H2020 compared to 1H2019. This was due mainly to the gross loss of S$194.6 million incurred in 1H2020 compared to a gross profit of S$26.4 million in 1H2019. The gross loss for 1H2020 was due mainly to the COVID-19 pandemic delaying projects execution, higher costs recognised for rigs & floaters and specialised shipbuilding projects; and lower margin recognition from offshore platforms. It was partly offset by profit from repairs and upgrades business.

The overall net impact of interest, depreciation and amortisation of S$149.7 million on EBITDA in 1H2020 is comparable to the net impact of interest, depreciation and amortisation of S$140.2 million in 1H2019 as the increase in finance cost due to higher average borrowings and interest rates and lower interest income in 1H2020 was offset by lower depreciation (as the fixed assets at Tanjong Kling Yard was fully depreciated in FY2019) and the receipt of government grants for the COVID-19 pandemic.

Hence, the Group posted a severe deterioration in its bottomline results for 1H2020. Loss before tax increased to S$220.8 million in 1H2020 compared to a loss of S$16.3 million in 1H2019, and loss attributable to owners of the Company was S$192.1 million in 1H2020 compared to a loss of S$6.8 million in 1H2019.

Net Order Book

As at 30 June 2020, the Group's net order book for projects stood at S$1.91 billion and the repairs & upgrades business has outstanding orders for execution totalling about S$280 million.

3.2.2 Financial position of the Group

The financial positions of the Group as at 31 December 2019 and 30 June 2020, being the latest interim results announcement of the Group, are set out below:

S$'000	Audited As at 31 December 2019	Unaudited As at 30 June 2020
Non-current assets		
Property, plant and equipment	4,250,971	4,281,101
Right-of-use assets	253,304	266,289
Interests in associates and joint ventures	14,887	15,399
Other financial assets	11,342	2,944
Trade and other receivables	1,087,631	1,116,342
Intangible assets	246,341	232,587
Deferred tax assets	29,195	66,668
	5,893,671	**5,981,330**
Current assets		
Inventories	113,108	132,163
Trade and other receivables	483,300	324,264
Contract costs	88,640	94,034
Contract assets	1,462,340	1,650,908
Tax recoverable	11,658	10,172
Assets held for sale	985	-
Other financial assets	15,820	4,673
Cash and cash equivalents	389,250	1,107,031
	2,565,101	**3,323,245**
Total assets	**8,458,772**	**9,304,575**
Current liabilities		
Trade and other payables	1,341,010	1,354,011
Contract liabilities	60,186	97,104
Provisions	16,433	18,625
Other financial liabilities	7,703	49,468
Current tax payable	3,758	8,836
Interest-bearing borrowings	1,421,620	2,031,750
Lease liabilities	23,978	22,940
	2,874,688	**3,582,734**
Net current liabilities	(309,587)	(259,489)
Non-current liabilities		
Deferred tax liabilities	28,989	26,519
Provisions	106,821	100,774
Other financial liabilities	2,204	1,703
Interest-bearing borrowings	1,479,172	1,795,519
Subordinated loan	1,500,000	1,500,000
Lease liabilities	254,120	276,956
Other long-term payables	6,000	6,006
	3,377,306	**3,707,477**
Total liabilities	**6,251,994**	**7,290,211**
Net assets	**2,206,778**	**2,014,364**
Equity attributable to owners of the Company		
Share capital	486,217	488,787
Other reserves	(44,996)	(45,685)
Revenue reserve	1,732,087	1,539,941
	2,173,308	**1,983,043**
Non-controlling interests	33,470	31,321
Total equity	**2,206,778**	**2,014,364**

S$'000	Audited As at 31 December 2019	Unaudited As at 30 June 2020
Net asset value ("**NAV**") of the Group (S$) (attributable to owners of the Company)	2,173,308,000	1,983,043,000
Net tangible assets ("**NTA**") of the Group (S$) (after deducting intangible assets)	1,926,967,000	1,750,456,000
Number of issued Shares (excluding treasury shares)		
- as at 31 December 2019	2,090,487,729	
- as at 30 June 2020		2,092,538,174
NAV per Share	**S$1.0396**	**S$0.9477**
NTA per Share	**S$0.9218**	**S$0.8365**

Source: *Company's annual report for FY2019 and results announcement for 1H2020*

As at 31 December 2019

Assets

The assets of the Group totalling S$8.46 billion comprised mainly property, plant and equipment of S$4.25 billion (50.3% of total assets), trade and other receivables of S$1.57 billion (18.6% of total assets) and contract assets of S$1.46 billion (17.3% of total assets).

The property, plant and equipment relates to mainly shipyards assets in Singapore and Brazil.

Trade and other receivables consists of mainly non-current and current trade receivables from customers.

Contract assets relate mainly to the Group's rights to consideration for work completed but not yet billed at reporting date on the long-term contracts for ship and rig building, conversion and repair. The contract assets are transferred to trade receivables when the rights become unconditional.

Liabilities

The total liabilities of the Group of S$6.25 billion comprised mainly interest-bearing borrowings of S$2.90 billion (46.4% of total liabilities), the Subordinated Loan of S$1.50 billion (24.0% of total liabilities), and trade and other payables of S$1.35 billion (21.5% of total liabilities).

The Subordinated Loan is part of the five-year subordinated loan facility from SCI of S$2 billion ("**Subordinated Credit Facility**"), of which S$1.50 billion was drawn down on 8 July 2019 to retire the Group's short term borrowings and re-profile the Group's remaining borrowings with longer term maturities. As a result, as at 31 December 2019, the Group had current borrowings of S$1.42 billion, non-current borrowings of S$1.48 billion and the non-current Subordinated Loan of S$1.50 billion, totalling S$4.40 billion.

As a result of the above borrowings of S$4.40 billion and after netting off cash and cash equivalents of S$0.39 billion, the net gearing of the Group is 1.82 times.

As at 31 December 2019, the Group also has negative working capital based on its net current liabilities of S$309.6 million.

Total equity of S$2.21 billion comprised mainly equity attributable to the owners of the Company and a relatively insignificant non-controlling interest of S$33.5 million.

NAV per Share as at 31 December 2019 was S$1.0396.

After deducting the intangible assets of S$246.3 million, the NTA of the Group was S$1.93 billion as at 31 December 2019, representing NTA per Share of S$0.9218. The intangible assets relate mainly to intellectual property rights and design under development.

As at 30 June 2020

The profile of the statement of financial position of the Group as at 30 June 2020 is relatively similar to the financial position as at 31 December 2019 except for the following main items:

(a) Interest-bearing borrowings had increased by S$926.5 million from 31 December 2019 to 30 June 2020. This has resulted in total borrowings increasing to S$5.3 billion as at 30 June 2020 from S$4.4 billion as at 31 December 2019.

(b) Cash and cash equivalents had increased by S$717.8 million to S$1.1 billion as at 30 June 2020.

As a result, the net gearing of the Group has increased from 1.82 times as at 31 December 2019 to 2.10 times as at 30 June 2020.

(c) Equity attributable to the owners of the Company and the NAV of the Group decreased by S$190.3 million to S$2.0 billion due mainly to the losses incurred by the Group in 1H2020.

Accordingly, NAV and NTA of the Group were S$0.9477 and S$0.8365 respectively as at 30 June 2020.

4. SALIENT TERMS OF THE PROPOSED RIGHTS ISSUE

4.1 The detailed terms of the Rights Issue are set out in Section 3 of the Circular. We note the following salient terms of the Rights Issue:

(i) the Rights Issue will be made on a renounceable and underwritten basis, on the basis of five Rights Shares for every one existing Share held by entitled Shareholders as at the Record Date to be determined at the Issue Price of S$0.20 for each Rights Share;

(ii) the Issue Price of S$0.20 for each Rights Share. The Issue Price represents a discount of 35.1% to the theoretical ex-rights price ("**TERP**") of S$0.308 per Share, based on the last transacted Share price of S$0.850 on 3 June 2020, being the last trading day prior to the Announcement Date ("**Last Trading Day**");

(iii) the Rights Shares are payable in full upon acceptance and/or application, and will, upon allotment and issuance, rank *pari passu* in all respects with the then existing Shares, except that they will not rank for any dividends, rights, allotments or other distributions the record date for which falls before the date of allotment of the Rights Shares;

(iv) as at the Latest Practicable Date, the Company has an issued share capital comprising 2,092,538,174 Shares (excluding 416,840 treasury shares). Accordingly, 10,462,690,870 Rights Shares will be issued pursuant to the Rights Issue, which will raise gross and net proceeds of approximately S$2.1 billion after deducting estimated expenses of approximately S$9 million to be incurred in connection with the Rights Issue;

(v) of the amount raised, S$1.5 billion (72% of the proceeds from the Rights Issue) will be utilised to repay (including by way of set-off) the Subordinated Loan, with the balance (28% of the proceeds from the Rights Issue) to be utilised for working capital and general corporate purposes, including debt servicing;

(vi) pursuant to the SCI Undertaking Agreement, SCI will subscribe to its full entitlement of approximately S$1.27 billion and will also subscribe up to another approximately S$0.23 billion of excess Rights Shares, and the aggregate amount payable for these Rights Shares will be set-off against the equivalent amount of the Subordinated Loan. The Company will also utilise either the cash proceeds received from the Rights Issue or its available cash balances to repay all and any outstanding principal amount, interest and any other agreed amounts on the Subordinated Loan. It is anticipated that as at the Loan Repayment Date, the other agreed amounts will comprise an intercompany loan fee payable under the Subordinated Credit Facility of approximately S$50,000; and

(vii) the Rights Issue is underwritten by DBS Bank which is, in-turn, sub-underwritten by Startree, a wholly-owned subsidiary of Temasek. Hence, the Company would be assured of raising an additional gross proceeds in cash of approximately S$0.6 billion to fund its ongoing operations.

The final terms and conditions of the Rights Issue will be contained in the offer information statement ("**OIS**") to be lodged with the Monetary Authority of Singapore and despatched to entitled Shareholders.

4.2 The Rights Issue and the SCI Distribution are integral parts of the Transaction proposed by SCI and the Company, to recapitalise the Company prior to the demerger of the recapitalised Company from SCI. Hence the Rights Issue and SCI Distribution are inter-conditional upon each other. After the completion of the Transaction, the Company and SCI will become two separate listed companies, each with Temasek as a direct and significant shareholder.

As such, the Transaction is subject to various conditions as set out in Sections 3.2 and 13.4 of the Circular. Some of the key conditions include the following:

(a) the Rights Issue is subject to Shareholders' approval at the EGM. In this regard, SCI, as the single largest Shareholder, has given its undertaking to the Company to vote in favour of the Rights Issue;

(b) the Rights Issue is conditional upon a majority of the Independent Shareholders' approval for the Whitewash Resolution at the EGM. The SIC has granted the Whitewash Waiver subject to, *inter alia*, the Temasek Concert Party Group and parties not independent of them (including SCI) abstain from voting on the Whitewash Resolution;

(c) the SCI Distribution, which is conditional on the Rights Issue and will proceed after the completion of the Rights Issue, is subject to the approval of SCI Shareholders at the SCI EGM. Upon completion of the SCI Distribution, SCI Shareholders will hold the Shares directly instead of through SCI. As a result of the SCI Distribution, Temasek (which is currently the single largest shareholder of SCI) will become a direct and significant Shareholder of SCM. As Temasek Concert Party Group will hold more than 30% of the Company, the Temasek Concert Party Group will be required to abstain from voting on the SCI Distribution; and

(d) the SCI Distribution is also subject to the Whitewash Resolution being approved by the Independent Shareholders at the SCM EGM. Further details on the SCI Distribution are set out in Section 5 below.

On 22 July 2020, the Company received the approval in-principle for the listing of and quotation for the Rights Shares on the SGX-ST, subject to certain conditions which are set out in Section 3.3 of the Circular. The approval in-principle granted by the SGX-ST for the listing of and quotation for the Rights Shares is not to be taken as an indication of the merits of the Rights Shares, the Company and/or its subsidiaries.

The Rights Issue and the SCI Distribution are inter-conditional upon each other and subject to, *inter alia*, the Rights Issue Resolution and the Whitewash Resolution being approved by the Shareholders at the SCM EGM, and the SCI Distribution Resolution being approved by the SCI Shareholders at the SCI EGM. In the event that any of the resolutions is not passed, neither the Rights Issue nor the SCI Distribution will be proceeded with.

It is therefore important to note that the Rights Issue, Whitewash Resolution and the SCI Distribution are all inter-conditional upon each other, and in the event that any of the resolutions is not passed, no part of the Transaction can proceed. Consequently, all of the Company's strenuous efforts to recapitalise and strengthen its balance sheet will be negated and the critical need to address its liquidity requirements will fail.

4.3 SCI Undertaking Agreement

As at the Latest Practicable Date, SCI is the single largest shareholder of the Company, holding 1,274,270,764 Shares which represents 60.9% of the issued share capital of the Company comprising 2,092,538,174 Shares (excluding 416,840 treasury shares).

Pursuant to the SCI Undertaking Agreement, SCI has undertaken and agreed with the Company on, *inter alia,* the following:

(i) to subscribe and pay in full for its *pro rata* entitlement under the Rights Issue. Based on SCI's entitlement of the Rights Shares, the value of these entitled Rights Shares is approximately S$1.27 billion;

(ii) to subscribe and pay in full for excess Rights Shares, provided that the value of such excess Rights Shares will not exceed the amount equivalent to the difference between S$1.5 billion and the value of the SCI's entitled Rights Shares. The value of excess Rights Shares is estimated to be up to approximately S$0.23 billion. Hence, the maximum number of Rights Shares that SCI will be obliged to subscribe is 7,500,000,000 Rights Shares, which is equivalent to S$1.5 billion;

(iii) in respect of the subscription of the Rights Shares, to set-off the aggregate value of the Rights Shares payable by SCI against an equivalent amount of the Subordinated Loan, and the Company will, on the Loan Repayment Date, use the cash proceeds from the Rights Issue or its available cash balances to repay all and any outstanding principal amount and interest on the Subordinated Loan as well as any other agreed amounts, whereupon the Subordinated Loan Facility will be cancelled;

(iv) to vote or procure the voting of all its Shares in favour of the Rights Issue, including the allotment and issuance of the Rights Shares, at the EGM; and

(v) no commission or fee will be payable by the Company to SCI in connection with SCI's undertakings under the SCI Undertaking Agreement.

In compliance with Rule 877(10) of the Listing Manual, in the allotment of any excess Rights Shares, preference will be given to the rounding of odd lots, and Directors and Substantial Shareholders (including SCI) who have control or influence over the Company in connection with the day-to-day affairs of the Company or the terms of the Rights Issue, or have representation (direct or through a nominee) on the Board of Directors, will rank last in priority for the rounding of odd lots and the allotment of excess Rights Shares.

Details of the SCI Undertaking Agreement are set out in Section 6 of the Circular.

4.4 Temasek's sub-underwriting

DBS Bank is the underwriter of the Rights Issue and has agreed to underwrite the balance amount of the Rights Shares that is not undertaken to be subscribed by SCI.

SCI's commitment under the SCI Undertaking Agreement is 7,500,000,000 Rights Shares or S$1.5 billion as described in Section 4.3 above. Hence, the balance of the 2,962,690,870 Rights Shares or S$592,538,174 will be underwritten by DBS Bank.

In-turn, Temasek, through its wholly-owned subsidiary, Startree, has entered into the Sub-Underwriting Agreement with DBS Bank to subscribe or procure one or more Temasek Companies to subscribe for the Underwritten Rights Shares, to the extent that there is a shortfall in the valid subscriptions to the Rights Issue after taking into consideration the SCI Undertaken Rights Shares.

No sub-underwriting fees will be paid to Temasek or Startree for the sub-underwriting arrangement.

Accordingly, all the Rights Shares to be issued pursuant to the Rights Issue, if proceeded with, will be fully subscribed.

4.5 Purely for illustration purposes, in the extreme scenario ("**Extreme Scenario**") where the entire Rights Issue is subscribed only by SCI and Startree or one or more Temasek Companies ("**Relevant Temasek Entity(ies)**"), pursuant to their respective undertaking and sub-underwriting commitments, the shareholding interests of SCI, Temasek and the remaining SCM Shareholders in SCM before and after the Rights Issue will be as follows:

For ease of reference for our analysis of shareholding interests in the table below and in this Letter, we have used the term "Temasek" to refer to Temasek Holdings (Private) Limited and the Relevant Temasek Entity(ies).

Extreme Scenario – only SCI and Temasek subscribe to the Rights Issue

	Before Rights Issue		Number of Rights Shares subscribed	After Rights Issue	
	Existing number of Shares	**% share-holding**		**Enlarged number of Shares**	**% share-holding**
SCI	1,274,270,764(2)	60.90	7,500,000,000	8,774,270,764	69.89
Temasek	-	-	2,961,662,085	2,961,662,085	23.59
Other Temasek Concert Party Group(3)	205,757	0.01	1,028,785	1,234,542	0.01
Sub-total	**1,274,476,521**	**60.91**	**10,462,690,870**	**11,737,167,391**	**93.48(5)**
Independent SCM Shareholders(4)	818,061,653	39.09	-	818,061,653	6.52
Total	**2,092,538,174(1)**	**100.00**	**10,462,690,870**	**12,555,229,044**	**100.00**

Notes:

(1) Based on SCM's issued share capital comprising 2,092,538,174 Shares (excluding treasury shares) as at the Latest Practicable Date;

(2) Based on SCI's direct shareholding interest of 1,274,270,764 Shares (excluding treasury shares) as at the Latest Practicable Date;

(3) Based on the assumption that other members of the Temasek Concert Party Group subscribe to their full entitlements of the Rights Issue;

(4) The shareholdings of the Independent SCM Shareholders include the shareholdings of the SCM Directors (including Tan Sri Mohd Hassan Marican and Mr Koh Chiap Khiong as the SIC has confirmed that their shareholdings in SCM need not be aggregated as part of the Temasek Concert Party Group); and

(5) Does not add up due to rounding.

In the above Extreme Scenario, arising from the sub-underwriting commitment, Temasek would have a direct interest of 23.6% in the Company, and through its 49.3% interest in SCI, would have another effective interest of 34.5% in the Company. Further analysis of Temasek's interest in the Company is shown in Sections 7.5 and 7.7 of this Letter.

5. THE PROPOSED SCI DISTRIBUTION

Presently and prior to the SCI Distribution, the Company is a 60.9%-owned subsidiary of SCI. Temasek has a 49.3% interest in SCI and, together with parties deemed acting in concert with it, the Temasek Concert Party Group has a deemed interest of 49.4% in SCI.

As part of the Transaction, SCI is proposing the SCI Distribution following the completion of the Rights Issue. The SCI Distribution involves the distribution in *specie* of all the SCM Shares held by SCI after the completion of the Rights Issue to SCI Shareholders on a *pro rata* basis as dividends. As set out in Section 13.2 of the Circular, it is estimated that SCI Shareholders will receive between 4.279 and 4.911 SCM Shares for every SCI Share held, with no cash outlay. The SCI Distribution is subject to, *inter alia*, approval of SCI Shareholders at the SCI EGM.

After the completion of the SCI Distribution, SCM will cease to be a subsidiary of SCI. SCI Shareholders (including Temasek) will hold the listed shares in SCI and SCM directly. The SCI Distribution does not affect the number of SCI Shares held by each SCI Shareholder, as it only involves the distribution of SCM Shares held by SCI.

Following the SCI Distribution, Temasek will be a direct and significant shareholder of both SCI and SCM.

In view of the distribution of SCM Shares held by SCI to its shareholders pursuant to the SCI Distribution upon completion of the Rights Issue, which will result in the Temasek Concert Party Group holding more than 30% of the enlarged issued share capital of SCM and thereby triggering an obligation for the Temasek Concert Party Group to make a general takeover offer for SCM, the Whitewash Waiver was sought and obtained for the Temasek Concert Party Group, subject to, *inter alia*, the Whitewash Resolution being approved by a majority of the Independent Shareholders by way of a poll at the SCM EGM.

Besides Temasek becoming a direct shareholder of SCM, other existing SCI Shareholders will also become shareholders of SCM.

Details of the SCI Distribution are set out in Section 13 of the Circular.

Continuing from the Extreme Scenario illustrated in Section 4.5 above, following the completion of the SCI Distribution, the shareholding interests of Temasek, other SCI Shareholders and the Independent SCM Shareholders in SCM under this scenario would be as follows:

Extreme Scenario – after the Rights Issue and SCI Distribution

	Before the SCI Distribution but after the Rights Issue		Distribution in species of the SCM Shares held by SCI[(1)]	After the Rights Issue and SCI Distribution	
	Number of Shares	**% share-holding**	**Number of Shares distributed**	**Number of Shares**	**% share-holding**
SCI	8,774,270,764	69.89	N.A.	-	-
Temasek	2,961,662,085	23.59	4,324,628,210[(2)]	7,286,290,295	58.03
Other Temasek Concert Party Group	1,234,542	0.01	8,036,812[(3)]	9,271,354	0.07
Sub-total	**11,737,167,391**	**93.48[(4)]**	**4,332,665,022**	**7,295,561,649**	**58.11[(4)]**
Independent SCM Shareholders	818,061,653	6.52	N.A.	818,061,653	6.52
Other SCI Shareholders (excluding the Temasek Concert Party Group)	-	-	4,441,605,742	4,441,605,742	35.38
Total	**12,555,229,044**	**100.00**	**8,774,270,764**	**12,555,229,044**	**100.00[(4)]**

Notes:

(1) Under this Extreme Scenario, the subject of the SCI Distribution to the SCI Shareholders is based on SCI's direct shareholding interest of 8,774,270,764 SCM Shares (immediately after the Rights Issue but before the SCI Distribution) on the basis of 4.911 SCM Shares for every SCI Share held;

(2) Based on Temasek's direct shareholding interest of 880,600,328 SCI Shares in SCI's issued share capital comprising 1,786,431,697 SCI Shares (excluding treasury shares) as at the Latest Practicable Date;

(3) Based on Other Temasek Concert Party Group's aggregate interests of 1,636,492 SCI Shares; and

(4) Does not add up due to rounding.

As mentioned earlier in this Letter, the Rights Issue and the SCI Distribution are inter-conditional upon each other and are integral parts of the Transaction. In the event that any of the resolutions being put forth for approvals by the respective shareholders at the SCM EGM and SCI EGM is not passed, neither the Rights Issue nor the SCI Distribution will be proceeded with.

6. THE WHITEWASH RESOLUTION

The Whitewash Waiver was sought and obtained for the Temasek Concert Party Group in view of the potential outcome arising from the Transaction where the Temasek Concert Party Group may incur a Mandatory Offer obligation under the Code.

The SIC had, on 5 June 2020, granted the Whitewash Waiver to the Temasek Concert Party Group subject to the satisfaction of various conditions ("**SIC Conditions**") in respect of the Company and in respect of SCI. The details of the SIC Conditions are set out in Section 14.2 of the Circular.

The SIC Conditions imposed on the Company include the following:

(a) the Whitewash Resolution to be approved by a majority of the Independent Shareholders by way of a poll at the EGM, and the Temasek Concert Party Group and parties not independent of them will need to abstain from voting on the Whitewash Resolution;

(b) the IFA to advise the Independent Shareholders on the Whitewash Resolution; and

(c) to rely on the Whitewash Resolution, approval of the Whitewash Resolution must be obtained within 3 months of 5 June 2020 and the SCI Distribution must be completed within 3 months of the date on which the approval of the Shareholders for the Whitewash Resolution is obtained.

The Independent Shareholders are therefore asked to vote, on a poll, on the Whitewash Resolution set out as Ordinary Resolution 2 in the Notice of EGM included in the Circular.

In respect of SCI, SIC Conditions include the following:

(i) the SCI Distribution being approved by a majority of the SCI Shareholders present and voting at the SCI EGM on a poll, and the Temasek Concert Party Group and parties not independent of them will need to abstain from voting on the SCI Distribution; and

(ii) the SCI Circular to contain advice to the effect that by voting for the SCI Distribution, and if the Independent Shareholders approve the Whitewash Resolution at the SCM EGM, the SCI Shareholders are waiving their right to a general offer at the required price by the Temasek Concert Party Group, which would acquire or consolidate effective control of SCM after the SCI Distribution.

We have analysed the dilution effect on the Independent Shareholders and the respective shareholding interests in the enlarged issued share capital of the Company under the various scenarios arising from the Rights Issue and the SCI Distribution in Sections 7.5 and 7.7 below respectively.

We wish to highlight to the Independent Directors to advise the Independent Shareholders that:

(a) by voting in favour of the Whitewash Resolution, they will be waiving their rights to receive a general offer for their Shares from the Temasek Concert Party Group at the highest price paid by any of them for the Shares in the past six months prior to the commencement of the offer which they would have otherwise been obliged to make for the Shares in accordance with Rule 14 of the Code;

(b) the Rights Issue and the SCI Distribution could result in the Temasek Concert Party Group holding more than 49% of the voting rights in the Company, and the Temasek Concert Party Group will thereafter be free to acquire further Shares without incurring any obligation to make a mandatory general offer for the Company; and

(c) the Rights Issue and the SCI Distribution are inter-conditional upon each other, and if any one of the above-mentioned resolutions is not passed by the shareholders at the respective SCM EGM and SCI EGM, neither the Rights Issue nor the SCI Distribution will be proceeded with.

7. EVALUATION OF THE WHITEWASH RESOLUTION

In our evaluation of the Whitewash Resolution, we have given due consideration to, *inter alia*, the following key factors:

(a) rationale for the Transaction;

(b) the Rights Shares being offered to all entitled Shareholders on a *pro rata* basis;

(c) assessment of the Issue Price of the Rights Shares;

(d) financial effects of the Rights Issue;

(e) dilution impact of the Rights Issue on the Independent Shareholders;

(f) the SCI Distribution being offered to all entitled SCI Shareholders on a *pro rata* basis;

(g) shareholding interest of the Temasek Concert Party Group after the Transaction; and

(h) other relevant considerations.

7.1 Rationale for the Transaction

It is not within our terms of reference to comment or express an opinion on the merits of the Transaction or the future prospects of the Group after the Transaction. Nevertheless, we have reviewed the rationale for the Transaction as set out in Section 4 of the Circular.

In summary, we note the following rationale for the Transaction:

(a) **Industry Context and Background.** The Company has been affected by the prolonged and severe downturn of the Offshore and Marine industry since 2015, and is also affected more recently by the COVID-19 pandemic and the sudden collapse in oil prices. These developments have hit the Company's operating cash flows and financial situation and the Company is now in urgent need to recapitalise, address its liquidity requirements and strengthen its balance sheet.

(b) **S$2.1 billion Recapitalisation: Strengthening Liquidity and Balance Sheet.** Among various financing options, the Directors believe that the Rights Issue to raise gross proceeds of S$2.1 billion is critically needed to maintain sufficient liquidity to ride out the current industry downturn. The Rights Issue is fully supported by SCI and Temasek pursuant to the SCI Undertaking Agreement and Sub-Underwriting Agreement.

As S$1.5 billion of the proceeds from the Rights Issue will be used to settle the Subordinated Loan, the gearing of the Group and consequently interest expense will be reduced. The Rights Issue will also raise additional proceeds in cash of approximately S$0.6 billion to, *inter alia*, fund the Company's ongoing commitments, strengthen its balance sheet, and help compete for new high-value projects and ensure long-term viability.

(c) **Demerger of the Company and SCI via the SCI Distribution.** For strategic reasons, SCI proposes to effect a demerger of its core business from its Marine interests through the SCI Distribution of its shareholding in the Company. In structuring the Transaction, consideration was given to the Company achieving its recapitalisation objective and that SCI Shareholders will receive Shares in a recapitalised SCM. Accordingly, the Rights Issue and the SCI Distribution are inter-conditional.

SCI Entitled Shareholders will hence own the SCM Shares directly, in addition to their existing SCI Shares. Temasek will be a direct and significant shareholder of both SCI and the Company.

In order to realise the objectives of the Transaction, the Rights Issue and SCI Distribution are inter-conditional upon each other. If any of the proposed resolutions is not passed, neither the Rights Issue nor the SCI Distribution will be proceeded with.

It is therefore important to note that the Rights Issue, Whitewash Resolution and the SCI Distribution are all inter-conditional upon each other, and in the event that any of the resolutions is not passed, no part of the Transaction can proceed. Consequently, all of the Company's strenuous efforts to recapitalise and strengthen its balance sheet will be negated and the critical need to address its liquidity requirements will fail.

7.2 The Rights Shares being offered to entitled Shareholders on a *pro rata* basis

The Rights Shares are being offered on a *pro rata* basis to entitled Shareholders on the basis of five Rights Shares for every one existing Share held as at the Record Date. Entitled Shareholders will be at liberty to accept (in full or in part), decline or renounce their rights entitlements ("**Rights**") and will be eligible to apply for excess Rights Shares in excess of their provisional allotments under the Rights Issue. Entitled Depositors will also be able to trade their Rights on the SGX-ST during the Rights trading period prescribed by the SGX-ST.

Fractional entitlements to the Rights Shares will be disregarded in arriving at the Shareholders' entitlements and will, together with such Rights Shares that are not validly taken up, be aggregated and used to satisfy excess applications for Rights Shares (if any) or disposed of or otherwise dealt with in such manner as the Directors may, in their absolute discretion, deem fit for the benefit of the Company.

In the allotment of excess Rights Shares, preference will be given to the rounding of odd lots, and Directors and Substantial Shareholders who have control or influence over the Company in connection with the day-to-day affairs of the Company or the terms of the Rights Issue, or have representation (direct or through a nominee) on the Board of Directors, will rank last in priority for the rounding of odd lots and the allotment of excess Rights Shares.

In the case of foreign Shareholders who are not entitled to the provisional allotments of the Rights Shares, in order to avoid violation of securities legislation applicable in their countries, it is stated in Appendix 1 to the Circular that, if it is practicable to do so, the Company may, at its absolute discretion, arrange for the Rights, which would otherwise have been provisionally allotted to Foreign Shareholders to be sold "nil-paid" on the SGX-ST as soon as practicable after the commencement of trading in the Rights. The net proceeds arising from the above will be dealt with in accordance with the terms set out in the OIS to be issued by the Company for the Rights Issue.

Hence, the Independent Shareholders will be entitled to their full *pro rata* allocation to the Rights Issue and are not being prejudiced in the allocation of their applications for excess Rights Shares.

7.3 Assessment of the Issue Price of the Rights Shares

The Issue Price for each Rights Share is S$0.20.

In assessing the Issue Price, we have considered the following:

(i) the historical trading performance of the Shares; and

(ii) comparison of the discount of the Issue Price to the TERP with the salient statistics of selected completed rights issues of shares by companies listed on the SGX-ST.

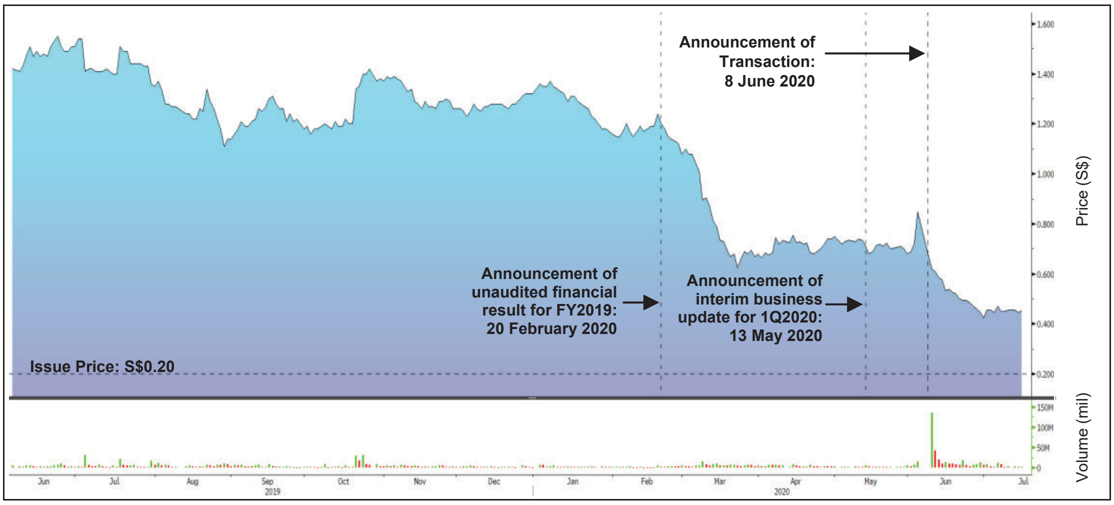
7.3.1 Market quotation and trading activity of the Shares

Trading on the Shares was halted from 4 June 2020 to 8 June 2020, and the Announcement on the Transaction was released on 8 June 2020. Accordingly, the Last Trading Day when the Shares were last traded prior to the release of the Announcement is 3 June 2020.

In assessing the Issue Price, we have compared the Issue Price against the historical market price performance of the Shares and considered the historical Share trading volume from 4 June 2019, being the 1-year period prior to the Last Trading Day, and up to the Latest Practicable Date ("**Period Under Review**").

Set out below is a chart showing the Issue Price relative to the daily last transacted prices and trading volume of the Shares for the Period Under Review.

Price movement and trading volume of the Shares for the Period Under Review



Source: *Bloomberg L.P.*

As seen from the share price chart above, for most parts of the Period Under Review since 4 June 2019 until February 2020, the Shares were trading well above the NAV and NTA per Share of S$1.11 and S$1.01 as at 31 December 2018 respectively. In February 2020, when the Company announced its unaudited financial results for FY2019, the Shares continued to trade mostly above its NAV and NTA per Share of S$1.04 and S$0.92 as at 31 December 2019 respectively. In the results announcement for FY2019, the Company had reported higher losses compared to FY2018 and had cautioned the trend of losses in view of the challenges facing the Group including the COVID-19 virus outbreak.

As the COVID-19 pandemic continued to spread globally in the ensuing months, particularly in February/March 2020, various extreme measures of lock-down and restrictions of movement of people were imposed by many countries. This had created a global crisis with great uncertainty. Financial markets reflected this uncertainty with benchmark stock indexes falling to bear territory. The Straits Times Index fell 17.5% in the month of March 2020.

The Share price fell 38% in the month of March 2020 from S$1.10 to S$0.68 based on the last transacted prices. From April 2020 to end of May 2020, the Share price had traded between S$0.665 and S$0.755 based on the daily last transacted prices. During this period, the Company released its business update for 1Q2020 on 13 May 2020 and continued to caution the impact of the challenging and weak business environment facing the Group.

The Shares were generally well traded during the Period under Review in terms of trading volume.

On 3 June 2020, the Share price spiked up by 17.2% to S$0.85 (last transacted price) compared to the preceding day's last transacted Share price of S$0.725. Trading volume on 3 June was 14.7 million Shares compared to 6.1 million Shares on 2 June 2020.

During the trading halt, on 8 June 2020, the Company released the Announcement on the Transaction.

The Issue Price for the Rights Shares represents:

(a) a discount of 76.5% to the last transacted Share price of S$0.85 on the Last Trading Day;

(b) a discount of 35.1% to the TERP of S$0.3083 per Share based on the last transacted Share price of S$0.85 on the Last Trading Day; and

(c) a discount of 31.0% to the TERP of S$0.2900 per Share based on the volume weighted average price ("**VWAP**") of S$0.7398 for each Share for the last 5 market days prior and up to the Last Trading Day.

Since the Announcement Date and up to the Latest Practicable Date, the Share prices appeared to be trending downwards from S$0.62 on 9 June 2020 to S$0.455 as at the Latest Practicable Date.

The Company released its financial results for 1H2020 after trading hours on the Latest Practicable Date.

7.3.2 Statistics of selected completed rights issues of shares

In assessing the Issue Price, we have also looked at the salient statistics of selected completed renounceable rights issues of shares by companies (excluding real estate and business trusts) listed on the SGX-ST, that were announced since 1 January 2018 and up to the Latest Practicable Date, and with a market capitalisation of at least S$50 million as at the respective announcement dates ("**Selected Rights Issues**"). There are 14 such Selected Rights Issues.

Shareholders should note that the business activities, size of operations, risk profile, geographical spread, operating and financial leverage, market capitalisation, cash flow requirement, track record, future prospects and other relevant criteria of each of the above companies are not identical to the Group. Accordingly, any inference that can be drawn from the comparison of the relevant discounts to TERP of the Selected Rights Issues may not be directly comparable to the Rights Issue and should not be conclusively relied upon.

Name of Issuer	Date of announcement	Market capitalisation as at the respective announcement dates (S$' million)	Terms of rights issue	Issue price of rights share (S$)	Last trading price prior to announcement (S$)	TERP (S$)	Premium/ (Discount) to TERP (%)
MTQ Corporation Limited	30 Jan 2018	61.8	2 for 5	0.200	0.400	0.343	(42.0)
Singapore Medical Group Limited[(1)]	01 Mar 2018	257.3	1 for 20	0.480	0.560	0.556	(13.7)
3Cnergy Limited[(1)]	02 Mar 2018	61.3	1 for 1	0.022	0.040	0.031	(29.0)
AusGroup Limited	29 Mar 2018	72.2	1 for 2	0.035	0.048	0.044	(19.8)
Hotel Royal Limited	11 May 2018	336.0	1 for 5	3.000	4.000	3.833	(21.7)
Moya Holdings Asia Limited[(1)]	22 May 2018	266.1	1 for 2	0.095	0.095	0.095	(0.0)
Envictus International Holdings Limited	18 Jun 2018	52.5	4 for 5	0.160	0.370	0.277	(42.2)
Hong Leong Asia Ltd.	14 Aug 2018	306.6	1 for 1	0.540	0.820	0.680	(20.6)
OUE Lippo Healthcare Limited[(1)]	18 Sep 2018	266.6	1 for 1	0.0675	0.120	0.094	(28.0)
TEE International Limited	29 Nov 2018	91.9	38 for 100	0.100	0.183	0.160	(37.6)
Chip Eng Seng Corp Ltd	22 Aug 2019	425.7	1 for 4	0.630	0.680	0.670	(6.0)
The Trendlines Group Ltd.[(1)]	26 Sep 2019	62.7	1 for 9	0.105	0.088	0.085	24.2[(2)]
Japfa Ltd	18 Dec 2019	1,071.4	1 for 10	0.500	0.575	0.570	(12.3)
Singapore Airlines Ltd	26 Mar 2020	7,703.3	3 for 2	3.000	6.500	4.400	(31.8)
High							**24.2**
Low							**(42.2)**
Mean							**(23.4)**
Median							**(21.7)**
Company	**08 June 2020 (Announce-ment Date)**	**1,776.9**	**5 for 1**	**0.200**	**0.850 (last transacted Share Price on the Last Trading Day)**	**0.308**	**(35.1)**
					0.7398 (VWAP over the last 5 market days prior and up to the Last Trading Day)	**0.290**	**(31.0)**

Source: *Respective announcements and public documents of the above companies, the SGX-ST website and Bloomberg.*

Notes:

(1) These are SGX Catalist-listed companies; and

(2) Excluded as statistical outlier in the mean and median computations.

As observed from the above statistics, the rights shares of the Selected Rights Issues were priced at a wide range, from a premium of 24.2% above the TERP (only one case) to a discount of 42.2% to the TERP, with the mean and median discounts of 23.4% and 21.7% respectively.

In comparison, we note the following:

(a) the proposed Rights Issue on the basis of 5 for 1 is the largest proportion of rights shares for every share held, as compared to the Selected Rights Issues;

(b) the Issue Price for the Rights Shares at the discount of 35.1% to the TERP is within the range of the Selected Rights Issues, and higher than the mean and median discounts of the Selected Rights Issues; and

(c) in view of the Share price spike on the Last Trading Day which may cause the TERP to be skewed, the Company had used the VWAP over the last 5 market days prior and up to the Last Trading Day to compute the TERP of S$0.290. On this basis, the Issue Price is at a slightly lower discount of 31.0% to the above TERP. While this discount of 31.0% is still higher than the mean and median discounts of the Selected Rights Issue, it is similar to the discount to the TERP in the rights issue recently announced by Singapore Airlines Ltd in March 2020 and completed in June 2020.

7.4 Financial effects of the Rights Issue

The Company has computed *pro forma* financial effects of the Rights Issue in Appendix 2 to the Circular which are based on the audited financial statements of the Group for FY2019 and unaudited results for 1H2020, and various assumptions. The *pro forma* financial effects are for illustrative purposes only and do not purport to be indicative or a projection of the results and financial position of the Group immediately after the completion of the Rights Issue.

In summary, we note the following:

(a) *Issued share capital of the Company*

After the completion of the Rights Issue, the number of issued Shares will be increased by 5-fold and the issued share capital of the Company will be increased significantly by the net proceeds of the Rights Issue.

(b) *NTA of the Group and NTA per Share*

Similarly, the NTA of the Group will also increase by the amount of the net proceeds from the Rights Issue.

However, there will be a material dilution in the NTA per Share after the Rights Issue as the Issue Price of S$0.20, which is at a significant discount to the NTA per Share of S$0.92 as at 31 December 2019, and the size of the Rights Issue on the basis of 5:1 has the combined dilutive effect on the NTA per Share post the Rights Issue. The Company had estimated the *pro forma* NTA per Share as at 31 December 2019 to be S$0.32 after the Rights Issue. Similarly, the *pro forma* NTA per Share as at 30 June 2020 would be S$0.31 after the Rights Issue.

At the time of the Announcement, the VWAP of the Shares (over the last 5 market days prior and up to the Last Trading Date) was S$0.74. This market Share price represents a price-to-book ratio of 0.80 times the NTA per Share of S$0.92 as at 31 December 2019.

On a *pro forma* basis, under the Rights Issue, the TERP of S$0.29 represents a higher price-to-book ratio of 0.91 times the *pro forma* NTA per Share as at 31 December 2019.

(c) *Loss per Share*

Overall, the Rights Issue will also have a dilutive effect on the loss per Share immediately after the Rights Issue due to the significant 5-fold increase in the number of issued Shares, although the Group would benefit from the interest savings following the full repayment of the Subordinated Loan.

The future effect of the Rights Issue on the Group's earnings or losses (if any) will depend on the returns earned from the deployment of the remaining net proceeds from the Rights Issue and is not likely to be determinable at this point in time.

(d) *Gearing*

The present net gearing of the Group before the Rights Issue is relatively high, which is a reason for the Group to propose the Rights Issue. After the recapitalisation and together with the full repayment of the Subordinated Loan, the net gearing of the Group will be reduced significantly.

7.5 Dilution impact of the Rights Issue on the Independent Shareholders

As at the Latest Practicable Date, the Company has outstanding 2,092,538,174 issued Shares and the Temasek Concert Party Group is deemed to have an aggregate interest of 1,274,476,521 Shares, representing 60.9% of the existing number of issued Shares. The above Temasek Concert Party Group's interest is substantially held through SCI which holds 1,274,270,764 SCM Shares. The remaining 818,061,653 SCM Shares or 39.1% of the existing number of issued Shares not held by the Temasek Concert Party Group are therefore held by the Independent SCM Shareholders for the purpose of the Whitewash Resolution.

In view of the undertaking and sub-underwriting commitments, the Rights Issue will be fully subscribed, and based on the above existing number of Shares, 10,462,690,870 Rights Shares will be issued and allotted to the subscribers.

If all Shareholders subscribe to their full *pro rata* entitlements of the Rights Shares under the Rights Issue, their respective shareholding interests in the Company before and after the Rights Issue will not change, and Shareholders will not suffer any dilution impact on their shareholding interests in the Company after the Rights Issue.

However, if a Shareholder does not subscribe or subscribe to less than his full *pro rata* entitlement of the Rights Shares under the Rights Issue, he will suffer a dilution impact on his shareholding interest after the completion of the Rights Issue, as his entitled provisional allotment of the Rights Shares which he has not subscribed (in part or in full) will be made available for those who have applied for excess Rights Shares and ultimately subscribed by Temasek, as a sub-underwriter to the Rights Issue, should there be any shortfall in the subscription of the Rights Issue.

The following are the 3 main subscription scenarios under the Rights Issue which may have a dilution impact on the Independent Shareholders:

Scenario	Description	Dilution Impact on Independent Shareholders
Scenario A	• all Shareholders subscribe to their full *pro rata* entitlements of the Rights Shares under the Rights Issue	No impact
Scenario B	• SCI subscribes to its full entitlement and apply for excess Rights Shares, totalling 7,500,000,000 Rights Shares; • Other Temasek Concert Party Group subscribes to their full entitlements; • Independent SCM Shareholders collectively subscribe to all the remaining Rights Shares not subscribed by SCI and the Temasek Concert Party Group; and • Hence, Temasek will not need to subscribe to any shortfall in valid subscriptions to the Rights Issue.	Some impact

Scenario	Description	Dilution Impact on Independent Shareholders
Scenario C, being the Extreme Scenario	• SCI subscribes to its full entitlement and apply for excess Rights Shares, totalling 7,500,000,000 Rights Shares; • Other Temasek Concert Party Group subscribes to their full entitlements; and • Temasek subscribes to the remaining shortfall in valid subscriptions to the Rights Issue.	Maximum impact

The dilution impact on the Independent Shareholders under the different scenarios are set out below:

Scenario A – *pro rata* subscription by all Shareholders

	Before the Rights Issue as at the Latest Practicable Date		Rights Issue		After the Rights Issue	
	Number of Shares held	**%**	**Rights Shares subscribed**	**%**	**Enlarged number of Shares held**	**%**
SCI	1,274,270,764	60.90	6,371,353,820	60.90	7,645,624,584	60.90
Temasek	-	-	-	-	-	-
Other Temasek Concert Party Group	205,757	0.01	1,028,785	0.01	1,234,542	0.01
Sub-total	**1,274,476,521**	**60.91**	**6,372,382,605**	**60.91**	**7,646,859,126**	**60.91**
Independent SCM Shareholders	818,061,653	39.09	4,090,308,265	39.09	4,908,369,918	39.09
Total	**2,092,538,174**	**100.00**	**10,462,690,870**	**100.00**	**12,555,229,044**	**100.00**

Scenario B – fully subscribed by Shareholders and hence, Temasek will not need to subscribe to any shortfall in valid subscriptions to the Rights Issue

	Before the Rights Issue as at the Latest Practicable Date		Rights Issue		After the Rights Issue	
	Number of Shares held	**%**	**Rights Shares subscribed**	**%**	**Enlarged number of Shares held**	**%**
SCI	1,274,270,764	60.90	7,500,000,000	71.68	8,774,270,764	69.89
Temasek	-	-	-	-	-	-
Other Temasek Concert Party Group	205,757	0.01	1,028,785	0.01	1,234,542	0.01
Sub-total	**1,274,476,521**	**60.91**	**7,501,028,785**	**71.69**	**8,775,505,306**	**69.90**
Independent SCM Shareholders	818,061,653	39.09	2,961,662,085	28.31	3,779,723,738	30.10
Total	**2,092,538,174**	**100.00**	**10,462,690,870**	**100.00**	**12,555,229,044**	**100.00**

Scenario C – Extreme Scenario, with Temasek subscribing to the shortfall in valid subscriptions to the Rights Issue

	Before the Rights Issue as at the Latest Practicable Date		Rights Issue		After the Rights Issue	
	Number of Shares held	**%**	**Rights Shares subscribed**	**%**	**Enlarged number of Shares held**	**%**
SCI	1,274,270,764	60.90	7,500,000,000	71.68	8,774,270,764	69.89
Temasek	-	-	2,961,662,085	28.31	2,961,662,085	23.59
Other Temasek Concert Party Group	205,757	0.01	1,028,785	0.01	1,234,542	0.01
Sub-total	**1,274,476,521**	**60.91**	**10,462,690,870**	**100.00**	**11,737,167,391**	**93.48**(1)
Independent SCM Shareholders	818,061,653	39.09	-	-	818,061,653	6.52
Total	**2,092,538,174**	**100.00**	**10,462,690,870**	**100.00**	**12,555,229,044**	**100.00**

Note:

(1) Does not add up due to rounding.

As illustrated in Scenario C above, under the Extreme Scenario where the Independent SCM Shareholders do not participate in the Rights Issue, the shareholding interests of these Independent SCM Shareholders will be diluted substantially from 39.1% prior to the Rights Issue to approximately 6.5% immediately after the Rights Issue.

Consequently, the shareholding interest of the Temasek Concert Party Group will increase significantly, due partly to the subscription of the Rights Shares by SCI pursuant to its undertaking commitment and partly from the take-up by Temasek of the shortfall in the valid subscriptions to the Rights Issue pursuant to the Sub-Underwriting Agreement.

At this stage before the SCI Distribution, the public float of the Company would fall below the minimum 10% public float requirement to remain listed on the SGX-ST, as the Temasek Concert Party Group would hold more than 90% of the enlarged issued share capital of the Company. Accordingly, the SGX-ST may suspend trading of the Shares until such time when the public float of the Company is restored to 10% or more.

The next stage of the corporate exercise is the SCI Distribution. Upon the completion of the SCI Distribution, the Company will cease to be a subsidiary of SCI. The effects on the shareholding interests of the Company under the different scenarios are set out in Section 7.7 below. It is anticipated that, following the SCI Distribution, the public float of the Company will be at least 10%. In addition, it is anticipated that the issuance of the Rights Shares and crediting of the SCM Shares under the SCI Distribution will be done concurrently, and accordingly, it is not expected that the Shares will be suspended from trading by the SGX-ST under Rule 1303(1) of the Listing Manual.

7.6 The SCI Distribution being offered to all entitled SCI Shareholders on a *pro rata* basis

Presently and prior to the SCI Distribution, the Company is a 60.9%-owned subsidiary of SCI. The Temasek Concert Party Group has a deemed interest of 49.4% in SCI which is held mainly by Temasek.

As part of the Transaction, SCI is proposing the SCI Distribution following the completion of the Rights Issue. The SCI Distribution involves the distribution in *specie* of all the SCM Shares held by SCI after the completion of the Rights Issue to entitled SCI Shareholders on a *pro rata* basis as dividends. As set out in Section 13.2 of the Circular, it is estimated that SCI Shareholders will receive between 4.279 and 4.911 SCM Shares for every SCI Share held, with no cash outlay. The SCI Distribution is subject to, *inter alia*, approval of SCI Shareholders at the SCI EGM and the approval of the Whitewash Resolution by a majority of the Independent Shareholders at the SCM EGM.

After the completion of the SCI Distribution, SCI will have distributed all or substantially all of its holding of SCM Shares and SCI Shareholders will hold listed shares in both SCI and SCM. SCM will cease to be a subsidiary of SCI.

7.7 Shareholding interest of the Temasek Concert Party Group after the Transaction

Under the three scenarios shown in Section 7.5 above, SCI's shareholding interest in the Company after the Rights Issue would vary between 60.9% and 69.9%. As Temasek's shareholding interest in SCI is 49.3%, Temasek's direct interest in the Company arising from the SCI Distribution would vary between 30.0% and 34.5% under the three scenarios. However, Temasek's aggregate interest in the Company would be further increased by the extent of subscription shortfall in the Rights Issue pursuant to the Sub-Underwriting Agreement.

The effects on the shareholding interests of the Company after the completion of the SCI Distribution under the three different scenarios are set out below:

Scenario A

	After the Rights Issue		SCI Distribution of SCM Shares[1]		After the Rights Issue and SCI Distribution	
	Number of Shares held	**%**	**Number of Shares distributed**	**%**	**Number of Shares held**	**%**
SCI	7,645,624,584	60.90	N.A.	N.A.	-	-
Temasek	-	-	3,768,088,803[2]	49.28	3,768,088,803	30.01
Other Temasek Concert Party Group	1,234,542	0.01	7,002,549[3]	0.09	8,237,091	0.07
Sub-total	**7,646,859,126**	**60.91**	**3,775,091,352**	**49.38[4]**	**3,776,325,894**	**30.08**
Independent SCM Shareholders	4,908,369,918	39.09	N.A.	N.A.	4,908,369,918	39.09
Other SCI Shareholders (excluding the Temasek Concert Party Group)	-	-	3,870,533,232	50.62	3,870,533,232	30.83
Total	**12,555,229,044**	**100.00**	**7,645,624,584**	**100.00**	**12,555,229,044**	**100.00**

Notes:

(1) Under Scenario A, the subject of the SCI Distribution is based on SCI's direct shareholding interest of 7,645,624,584 SCM Shares (immediately after the Rights Issue but before the SCI Distribution) on the basis of 4.279 SCM Shares for every SCI Share held.

Under Scenario B and Scenario C, the subject of the SCI Distribution is based on SCI's direct shareholding interest of 8,774,270,764 SCM Shares (immediately after the Rights Issue but before the SCI Distribution) on the basis of 4.911 SCM Shares for every SCI Share held;

(2) Based on Temasek's direct shareholding interest of 880,600,328 SCI Shares in SCI's issued share capital comprising 1,786,431,697 SCI Shares (excluding treasury shares) as at the Latest Practicable Date;

(3) Based on Other Temasek Concert Party Group's aggregate interest of 1,636,492 SCI Shares; and

(4) Does not add up due to rounding.

Under Scenario A, Temasek's interest in the enlarged issued share capital of the Company after the Transaction is slightly above 30.0%, and together with its concert parties, the Temasek Concert Party Group's interest would be 30.1%. Other SCI Shareholders (excluding the Temasek Concert Party Group) will also collectively hold an interest of approximately 30.9% in the enlarged issued share capital of the Company and existing Independent Shareholders' interest will remain at 39.1%.

Scenario B

	After the Rights Issue		SCI Distribution of SCM Shares(1)		After the Rights Issue and SCI Distribution	
	Number of Shares held	**%**	**Number of Shares distributed**	**%**	**Number of Shares held**	**%**
SCI	8,774,270,764	69.89	N.A.	N.A.	-	-
Temasek	-	-	4,324,628,210	49.29	4,324,628,210	34.44
Other Temasek Concert Party Group	1,234,542	0.01	8,036,812	0.09	9,271,354	0.07
Sub-total	**8,775,505,306**	**69.90**	**4,332,665,022**	**49.38**	**4,333,899,564**	**34.52(4)**
Independent SCM Shareholders	3,779,723,738	30.10	N.A.	N.A.	3,779,723,738	30.10
Other SCI Shareholders (excluding the Temasek Concert Party Group)	-	-	4,441,605,742	50.62	4,441,605,742	35.38
Total	**12,555,229,044**	**100.00**	**8,774,270,764**	**100.00**	**12,555,229,044**	**100.00**

Under Scenario B, as a result of SCI subscribing to its maximum commitment of the Rights Shares, and following the SCI Distribution, the Temasek Concert Party Group's interest in the enlarged issued share capital of the Company after the Transaction is approximately 34.5%, other SCI Shareholders (excluding the Temasek Concert Party Group) will collectively hold an interest of approximately 35.4% in the enlarged issued share capital of the Company and existing Independent Shareholders' interest will remain at 30.1%.

Scenario C

	After the Rights Issue		SCI Distribution of SCM Shares(1)		After the Rights Issue and SCI Distribution	
	Number of Shares held	**%**	**Number of Shares distributed**	**%**	**Number of Shares held**	**%**
SCI	8,774,270,764	69.89	N.A.	N.A.	-	-
Temasek	2,961,662,085	23.59	4,324,628,210	49.29	7,286,290,295	58.03
Other Temasek Concert Party Group	1,234,542	0.01	8,036,812	0.09	9,271,354	0.07
Sub-total	**11,737,167,391**	**93.48(4)**	**4,332,665,022**	**49.38**	**7,295,561,649**	**58.11(4)**
Independent SCM Shareholders	818,061,653	6.52	N.A.	N.A.	818,061,653	6.52
Other SCI Shareholders (excluding the Temasek Concert Party Group)	-	-	4,441,605,742	50.62	4,441,605,742	35.38
Total	**12,555,229,044**	**100.00**	**8,774,270,764**	**100.00**	**12,555,229,044**	**100.00(4)**

Under Scenario C, as explained in Section 7.5 above, Independent Shareholders would suffer a significant dilution in its collective shareholding interest in the enlarged issued share capital of the Company after the Rights Issue, and Temasek would acquire an interest of 23.6% in the Company as a result of taking up the shortfall in the subscription of the Rights Issue.

The above would add to Temasek's interest in the Company arising from the SCI Distribution.

Collectively, the Temasek Concert Party Group's interest in the enlarged issued share capital of the Company after the Transaction would reach approximately 58.1%, other SCI Shareholders (excluding the Temasek Concert Party Group) would collectively hold an interest of 35.4% in the enlarged issued share capital of the Company and existing Independent Shareholders' interest would be 6.5% after the Transaction.

7.8 Other relevant considerations

7.8.1 The Rights Issue, Whitewash Resolution and SCI Distribution being inter-conditional upon each other

The Rights Issue and the SCI Distribution are integral parts of the Transaction.

The Rights Issue, Whitewash Resolution and SCI Distribution are all inter-conditional upon each other. If any of the resolutions put forth for approval by the respective shareholders at the SCM EGM and SCI EGM is not passed, no part of the Transaction will be proceeded with and accordingly, there is no triggering of any takeover obligations by the Temasek Concert Party Group.

With respect to the Whitewash Resolution and the SCI Distribution, the Temasek Concert Party Group and parties not independent of them will need to abstain from voting on these resolutions.

Independent Shareholders should note that by voting in favour of the Whitewash Resolution:

(a) They will be waiving their rights to receive a general offer for their Shares from the Temasek Concert Party Group at the highest price paid by any of them for the Shares in the past six months prior to the commencement of the offer.

    In view that the Temasek Concert Party Group had not acquired any Shares in the past six months prior to the commencement of the offer, if a hypothetical Mandatory Offer were to be made by the Temasek Concert Party Group, the hypothetical offer price would be at S$0.20 for each Share. This is below the current market price of the Shares as at the Latest Practicable Date and below the TERP as at the Announcement Date.

(b) The Rights Issue and the SCI Distribution could result in the Temasek Concert Party Group holding more than 49% of the voting rights in the Company, and in such a scenario, the Temasek Concert Party Group will thereafter be free to acquire further Shares without incurring any obligation to make a mandatory general offer for the Company.

To rely on the Whitewash Waiver, the Whitewash Resolution must be obtained within 3 months from 5 June 2020 and the SCI Distribution must be completed within 3 months from the above EGM.

7.8.2 Support from Temasek and SCI

The Rights Issue is "back-stopped" (i.e. supported) by Temasek and SCI pursuant to their respective sub-underwriting and undertaking commitments. No fees or commission is payable to Temasek or SCI in connection with the Sub-Underwriting Agreement and the SCI Undertaking Agreement. Following the demerger, Temasek (which is currently the single largest shareholder of SCI) will become a direct and significant shareholder of the Company.

We believe that the above underscores the support by SCI and Temasek for the Rights Issue and demonstrates Temasek's commitment to the Group.

Under certain scenarios, Temasek may become the single largest Shareholder holding more than 50% of the issued share capital of SCM and will be able to pass all ordinary resolutions of the Company, other than ordinary resolutions in relation to interested person transactions where Temasek and its associates are deemed as interested persons and will have to abstain from voting on these proposed transactions pursuant to the Listing Manual.

7.8.3 Intentions of the Directors in relation to the Rights Issue

In addition, to demonstrate their support and commitment to the Company, the Directors have expressed their intentions to subscribe in full to their respective *pro rata* entitlements under the Rights Issue.

7.8.4 Commentary by the Company in its business outlook

On 15 July 2020, the Company made the following commentary in relation to its business outlook in its latest results announcement for 1H2020:

> *"Sembcorp Marine is gradually resuming project executions safely and progressively. How soon the Group's workforce will be allowed to return to full strength will determine the business outlook in subsequent quarters.*
>
> *Sembcorp Marine will work to ensure adequate liquidity and financial strength to sustain its operations and ride through the severe industry and COVID-19 pandemic.*
>
> *In this difficult business environment, the Group expects losses to continue into the foreseeable quarters."*

8. OUR OPINION

In arriving at our opinion in respect of the Whitewash Resolution, we have reviewed and examined all factors which we consider to be pertinent in our assessment, including the following key considerations:

(a) rationale for the Transaction;

(b) the Rights Shares being offered to all entitled Shareholders on a *pro rata* basis;

(c) assessment of the Issue Price of the Rights Shares;

(d) financial effects of the Rights Issue;

(e) dilution impact of the Rights Issue on the Independent Shareholders;

(f) the SCI Distribution being offered to all entitled SCI Shareholders on a *pro rata* basis;

(g) shareholding interest of the Temasek Concert Party Group after the Transaction; and

(h) other relevant considerations.

Overall, based on our analysis, the terms of the Transaction taken as a whole are fair and reasonable, and the Whitewash Resolution, when considered in the context of the Transaction, is not prejudicial to the interest of the Independent Shareholders.

Our opinion, as disclosed in this Letter, is based solely on publicly available information and information provided by the Directors and the Management and does not reflect any projections of future financial performance of the Company and/or the Group after the completion of the Transaction. In addition, our opinion is based on the economic and market conditions prevailing as at the Latest Practicable Date and is solely confined to our views on the Whitewash Resolution.

This Letter is addressed to the Independent Directors for their benefit and for the purpose of their consideration of the Whitewash Resolution. The recommendation made by the Independent Directors to the Independent Shareholders shall remain their responsibility. Whilst a copy of this Letter may be reproduced in the Circular, neither the Company, the Directors nor any Shareholders may reproduce, disseminate or quote this Letter (or any part thereof) for any purpose, other than for the purpose of the EGM and for the purpose of the Whitewash

Resolution, at any time and in any manner, without the prior written consent of Provenance Capital in each specific case.

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

Yours faithfully
For and on behalf of
PROVENANCE CAPITAL PTE. LTD.

Wong Bee Eng
Chief Executive Officer