KEPPEL LTD

# IS THERE MORE TO THE KEPPEL O&M DEAL THAN MEETS THE EYE?

December 2024

Keppel Offshore & Marine + sembcorp marine = Seatrium

CORPORATE MONITOR LTD

## REPORT OBJECTIVE

This report aims to examine the rationale and structure of the transformative deal in February 2023 when Keppel spun out its Offshore and Marine ("O&M") division and merged it with Sembcorp Marine, leading to the creation of Seatrium. At the same time as the merger/KOM combination, Keppel also undertook an AssetCo Transfer (see *Circular to Keppel Shareholders* dated 23 November 2022).

This **AssetCo** transaction was selected because

(1) The substantial size, at S$4.4bn, was equivalent to 14% of Keppel's assets or 37% of its shareholder equity as of Dec 2022
(2) Highly complex transaction with extremely generous financing terms granted by Keppel, which received no cash for selling legacy rigs at its carrying cost
(3) In less than 1 year, Keppel wrote off the perpetual securities it received as part of the transaction to "other comprehensive income", but did not make any impairment for the vendor notes.
(4) In less than 2 years, Keppel announced it would take back control of the legacy rigs and raise a private fund to own and seek to monetize such assets.

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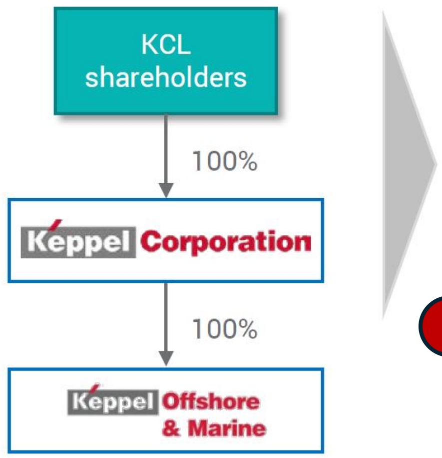
# Feb 2023: Keppel spins off O&M unit and combines it with Sembcorp Marine

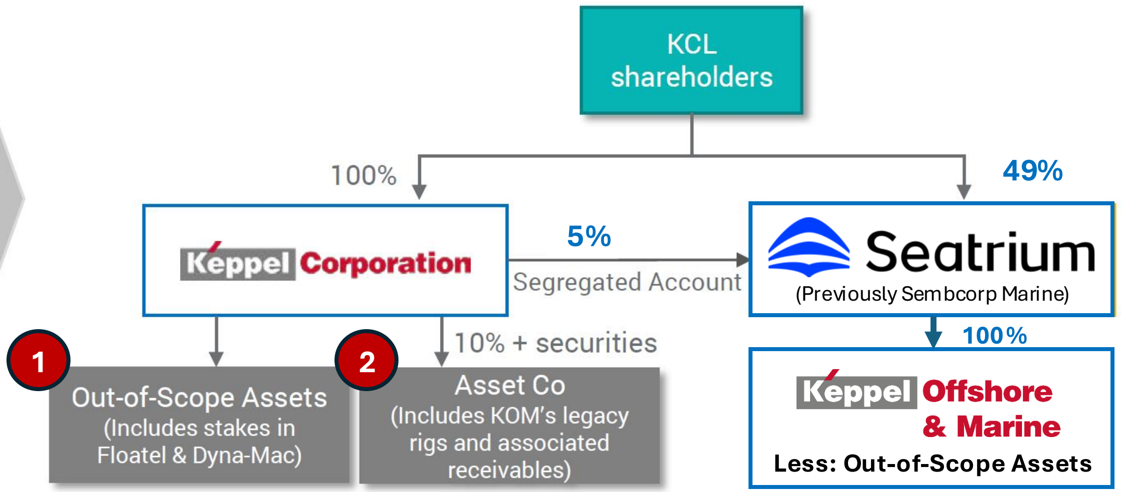
In Feb'23, the merger of Keppel O&M and Sembcorp Marine was completed and Seatrium was created (see Appendix I for the background leading to this). The deal involved a share swap arrangement, allowing shareholders from both companies to become shareholders of the merged entity, Seatrium. As part of the transaction, there was also a restructuring of Keppel O&M assets where (1) "out-of-scope assets" were retained by Keppel Corporation and (2) "in-scope assets" which were excluded from the merger transaction were transferred to **AssetCo**. These "in-scope assets" were primarily legacy rigs and legacy receivables.

In the **transaction, AssetCo was valued at S$4.4bn** (see Appendix II for details of consideration). With this deal, Keppel had **effectively reduced its stake in its legacy rigs to just 10% via equity ownership in AssetCo**, which would be responsible for monetising these assets.

**Pre-transaction structure**




**Post-transaction structure as of Nov'22[1]**

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| # | Legacy Rigs | Value | Original Buyer | Status |
|---|---|---|---|---|
| 1 | CAN-DO Vessel | Information unavailable | N/A | Information unavailable |
| 2 | Heidrun Vessel | US$149mn | Borr Drilling | Delivery in progress |
| 3 | Huldra Vessel | US$149mn | Borr Drilling | Delivery in progress |
| 4 | Nordic Spring Vessel | US$425mn[4] | Awilco | Terminated |
| 5 | Nordic Winter Vessel | US$425mn[4] | Awilco | Terminated |
| 6 | Sapura Raiqa Vessel | Information unavailable | Sapura Energy Berhad | Terminated |
| 7 | Tivar Vessel | US$149mn | Borr Drilling | Delivery in progress |
| 8 | TS Jasper Vessel | US$500mn[5] | TS Offshore | Terminated |
| 9 | Vale Vessel | US$149mn | Borr Drilling | Delivery in progress |
| 10 | Var Vessel | US$149mn | Borr Drilling | Delivery in progress |

1 **Out-of-Scope Assets**

**1. ~50% stake in Floatel** which owns 5 floating hotels

**2. Minority Stake in Dyna-Mac** (floating facility designer & manufacturer)

*Note: 24% stake in Dyna-Mac has since been sold for US$74mn to Hanwha Ocean and Aerospace in May'24[2]*

2 **In-Scope Assets[1]**

**Jack-up Rigs**

**Semi-Submersible Rigs**

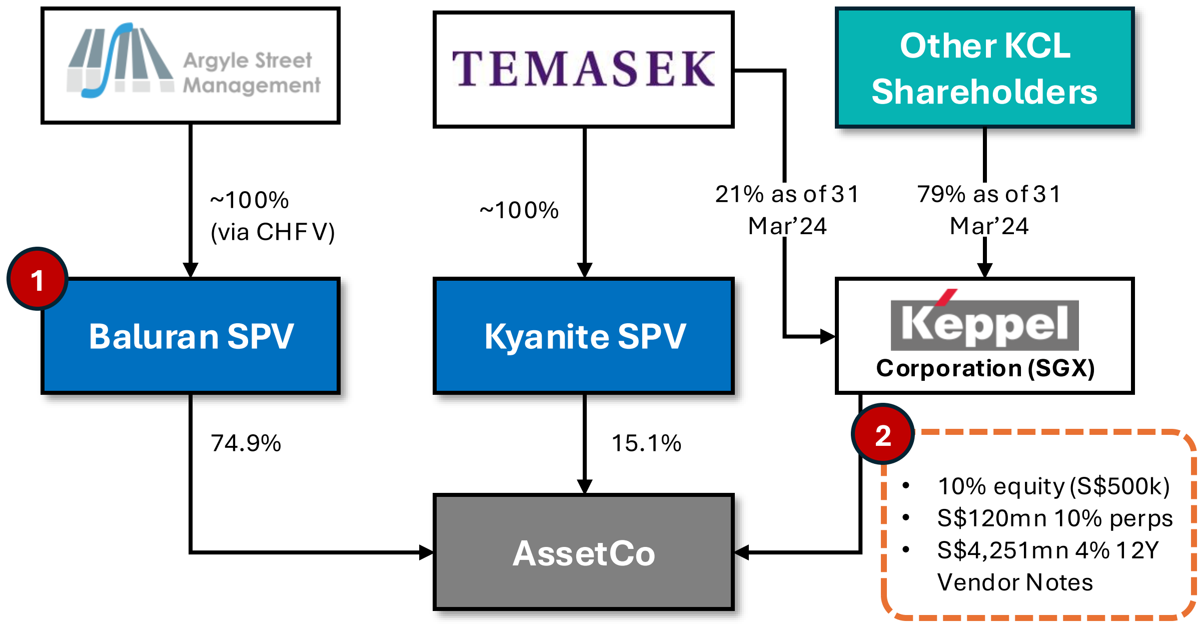
**CAN-DO Drill Ship**

Source: company disclosures, public news

# Is AssetCo independent? Is the transaction commercial and arms-length?

## S$4.4bn Transaction for Keppel; 14% of total assets and 37% of equity

**AssetCo's post-transaction ownership structure[1] (as of Nov'22)**




1

- AssetCo is ~75% owned by Baluran, a SPV managed by one of Argyle Street Management's (ASM) funds, CHF V, a special situations fund based in Hong Kong
- TIH (listed SGX fund) is listed as a investment advisor to CHF V. TIH is also a limited partner (ie investor) in CHF V
- TIH is 23% owned by ASM as of Nov'24. TIH's chairman, Kin Chan is also the founding partner and CIO of ASM
- Based on public info about TIH, the fund has **no experience in oil and gas** investments and has **only S$145mn in assets as of Dec'23**
- **Please see Appendix III for more information on ASM, TIH and CHF V**

1. The AssetCo transaction, valued at S$4.4bn represented 14% of Keppel's assets in FY22. Given the size, have alternative buyers been considered?
2. **Why was ASM / TIH chosen to control 75% of AssetCo?**
   a. There is no clear indication that ASM / TIH has the experience to manage and dispose legacy rigs like those under AssetCo
   b. CHF V, with only S$200mn AUM (see Appendix III) does not seem to have the financial resources for this S$4.4bn transaction
3. **ASM / TIH / CHF V invested no more than S$3.75mn in AssetCo**, based on the book value of AssetCo's equity. It is much less than 1% of the transaction value and it is not clear whether it was a cash investment
4. Why did ASM accept Keppel's carrying value for the rigs and other stranded assets without an independent valuation of its own? **Independent valuation per Keppel's FY23 Annual Report marks AssetCo's Vendor Notes at S$3bn vs at the point of transaction (Feb'23) of S$4.3bn (see page 7)**

2

5. Why did Keppel provide such favorable interest rate and terms to Asset Co?
   a. **Keppel received No Cash at all**
   b. Perps and Vendor Notes give AssetCo the option of servicing dividend and interest using cash or payments in kind (i.e. additional Perps or Vendor Notes) or a combination of both
   c. For the vendor notes, there is **no amortization of the principal amount**, which only needs to be repaid at the end of 12 years and can be extended by a further 3 years, for a total of 15 years
   d. According to the IFA for the transaction in Nov'22, Keppel's own cost of debt at the time was ~4% (see Appendix II). **Shouldn't Keppel negotiate for a higher interest rate given AssetCo's 100% exposure to offshore and marine?**

# Will Keppel recover the Vendor Notes?

**Based on its ACRA filings for FY23 (Dec-ended), AssetCo has made huge losses (EBIT loss was S$718mn) and its equity is deeply negative (S$734mn).**

| P&L | | FY23 |
|---|---|---|
| Revenue | S$mn | 307.8 |
| Opex | S$mn | (1,025.9) |
| **EBIT** | **S$mn** | **(718.0)** |
| *EBIT Margin* | *%* | *(233.2%)* |
| Net Interest Income / (Exp) [1] | S$mn | (144.7) |
| PBT | S$mn | (862.7) |
| *PBT Margin* | *%* | *(280.3%)* |
| Tax | S$mn | 1.6 |
| **NPAT** | **S$mn** | **(861.1)** |
| *NPAT Margin* | *%* | *(279.7%)* |

| Balance Sheet | | FY23 |
|---|---|---|
| **Assets** | | |
| ST Assets | S$mn | 2,781.2 |
| LT Assets | S$mn | 1,160.3 |
| **Total Assets** | **S$mn** | **3,941.5** |
| **Liabilities & Equity** | | |
| ST Liabilities | S$mn | 314.4 |
| LT Liabilities | S$mn | 4,360.8 |
| **Total Liabilities** | **S$mn** | **4,675.2** |
| Retained Earnings | S$mn | (871.5) |
| SH Equity | S$mn | 137.8 |
| **Total Equity** | **S$mn** | **(733.8)** |

**Unless there is imminent and substantial turnaround, will AssetCo be able to continue as a going concern without new capital injection?**

**What are the incentives and ability for CHF V to make good on the S$4.3bn Vendor Notes? It has invested at most S$3.75mn in AssetCo and has AUM of ~S$200mn.**

**Is that why Keppel recently made a surprise decision to take back the legacy rigs from AssetCo? See recent developments on Page 8**

Source: Company ACRA filings
USDSGD = 1.34 (average for 2023)
Note:
1. Includes other income e.g. gain / (loss) from disposal of assets

# After <1 year, Keppel fully writes off AssetCo Perps

**S$120mn 10% perpetual securities: full write-off**
**(Note 36e, FY23 Annual Report)**

As at 31 December 2023, management assessed that the $120,000,000 10.0% perpetual securities issued by Rigco (Note 38), which is measured at fair value through other comprehensive income, may be unrecoverable based on Rigco's business plan and financial projections received in December 2023. Accordingly, the carrying amount of the perpetual securities was reduced to $nil with the fair value changes recognised within other comprehensive income.

- As of Dec'23, just 10 months after the closing of the transaction, Keppel wrote off the Perpetual securities based on AssetCo's (referenced as RigCo in the above) **business plan and projection.**
- Keppel's concerns for AssetCo's projection must be serious and long term, because the Perpetual Securities cannot be in default. There is no fixed term of repayment and dividend can be paid in kind.
- Such a significant write off appears only as an obscure footnote in the annual report of 254 pages.
- this S$120mn write-off is classified under **other comprehensive income**, which leaves net profit unchanged and Keppel's performance unaffected by this write-off
- **What has changed so significantly in the AssetCo's prospects that Keppel has to now write off the Perpetual Securities completely?**

# ...yet there is no impairment on the Vendor Notes?

**AssetCo is the issuer in both cases, yet the S$120mn perpetual was written off, but the loss in Vendor Notes was deferred?**

**S$4,251mn 4% Vendor Notes: <u>no impairment</u>**
**(Note 2.27vii & 16, FY23 Annual Report)**

The transaction price of the Asset Co Transaction agreed with Rigco was based on the carrying values of the underlying assets as of 27 February 2023. Given the unique business and risk profile of Rigco, the transaction price was assessed to be not representing the fair value of the vendor notes. As the fair value of vendor notes is neither evidenced by a quoted price in an active market (i.e. Level 1 input) nor based on a valuation technique that uses only data from observable markets and as such, in accordance with SFRS(I) 9, paragraph B5.1.2A(b), the difference between the fair value at initial recognition and the transaction price was deferred. The deferred loss will be recognised as a loss on a systematic basis over time.

**Subsequent measurement**

As of 31 December 2023, the carrying amount of the vendor notes, measured at fair value, was $4,286,354,000 which included an unamortised deferred loss amounting to $1,107,501,000.

Movements in the notes receivables for the full year ended 31 December 2023 are as follows:

| | Fair value $'000 | Deferred loss $'000 | Carrying value $'000 |
|---|---|---|---|
| At 27 February 2023 | 3,003,599 | 1,247,545 | 4,251,144 |
| Fair value changes, including Interest income[1] | 150,659 | – | 150,659 |
| Amortisation to profit or loss[1] (from 27 February to 31 December 2023) | – | (149,694) | (149,694) |
| Exchange differences[2] | 24,595 | 9,650 | 34,245 |
| **At 31 December 2023** | 3,178,853 | 1,107,501 | 4,286,354 |

[1] The fair value changes, including interest income and amortisation of the deferred loss are recognised in the profit or loss and presented as "fair value (gain)/ loss – Notes receivables" in Note 28.

[2] The foreign exchange gain arising from the USD denominated vendor notes and the USD denominated unamortised deferred loss are recognised in the profit or loss and presented as "foreign exchange (gain)/loss" in Note 28.

- Upon subsequent assessment by an independent valuer and market expert in Dec'23, the fair value of Vendor Notes was estimated at S$3bn, with the S$1.3bn loss amortised over 7 years
- **Why were the experts not appointed earlier to give a fair valuation of AssetCo in Feb'23?**
- **Is the deferral of loss justified given the clear gap between the carrying value vs the fair value assessed by an independent valuer?**
- **If Keppel is so concerned about AssetCo's business plan and projection to write off the Perpetual Securities in less than 1 year, why is Keppel not concerned about the carrying value of the Vendor Notes?**
- **Both the Perpetual Securities and Vendor Notes are issued by AssetCo.**

# Now Keppel wants to take back the assets from AssetCo after <2 years?

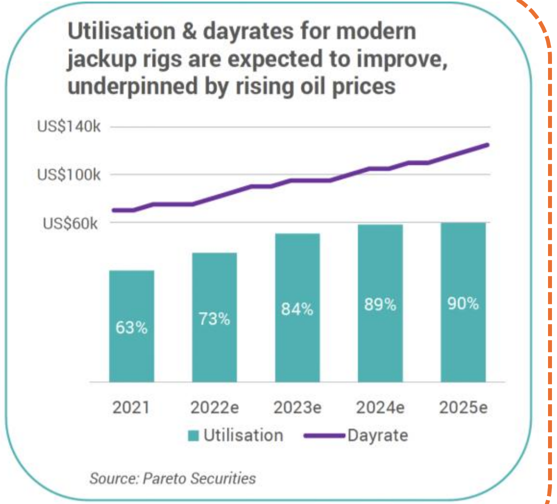
## Extract from Keppel's latest press release on AssetCo (19 Nov'24)

1 Keppel currently holds a 10% equity stake in Asset Co, S$139 million in perpetual securities and approximately S$4.3 billion in vendor notes issued by Asset Co. When the SCR exercise is successfully completed by end-2024, the shares in the capital of Asset Co not held by Keppel will be cancelled, resulting in Asset Co becoming a wholly-owned subsidiary of Keppel. Asset Co will be housed within a newly created private fund to be managed by Keppel.

With control over Asset Co, Keppel will be able to effectively manage when and how the legacy assets are monetised, with the goal of achieving the best risk-adjusted returns. Keppel will also have control of S$843 million of cash in Asset Co as at end September 2024, which it can utilise to complete the unfinished rigs. Keppel has no intention of re-entering the offshore and

## This is complete reversal from Keppel's presentation in Apr'22

- ✓ Confidence in Asset Co substantially monetising the assets over next 3-5 years with improving market conditions
- ✓ Asset Co's external investors will provide capital that can be used for finishing uncompleted legacy rigs, which will no longer be funded by Keppel
- ✓ Asset Co will be run by an independent management team that will focus on:
  - Completing uncompleted rigs
  - Marketing of existing rigs to potential buyers
  - Chartering of completed rigs to improve their marketability and generate cash flow until suitable outright sales can be arranged
  - Selling of rigs




1 **CML has the following questions for Keppel:**

- Why is Keppel reversing the AssetCo transaction in <2 years?
- Why raise a private fund to buy legacy rigs and Floatel, considering
  - What expertise in monetising these rigs does Keppel possess now, if it could not do it before? This will be the 3rd time Keppel attempts to deal with the legacy rigs. The first was in January 2021 when Rigco was to be set up. This was superseded by the 2023 restructuring detailed in page 3.
  - This private fund may be a one-off fund
  - The inclusion of Floatel diminishes the attractiveness of the assets. Floatel is dependent on ever increasing debt to stay afloat. After a debt restructuring in 2021 that brought total debt down to US$284m from close to US$900m, debt is back to US$330m, thanks to a US$350m bond raised in 2024. Finance cost was US$40m in 9 months 2024, more than operating profit of US$22m.
- **Will the private fund buy the assets at the same price it was sold to AssetCo? Since Keppel has written off the perp, and independent valuation of the Vendor Notes was S$3bn, it appears that only a lower price will attract investors, if at all.**
- Why would the 75% shareholder, ASM, allow Keppel, a minority shareholder with 10% equity, to cancel its shares and assume control of S$843mn in cash? The AssetCo was not in default

# Key questions raised on the AssetCo transaction


**1**

**Why aren't the S$4.3bn Vendor Notes due from AssetCo written down? The Perps from AssetCo are already written off. The AssetCo has a large loss and negative equity as of 2023. The fact that Keppel wants to take back the legacy rigs raises questions about AssetCo.**

**2**

**Did Keppel run a formal sale process for the legacy rigs in 2022/23? Why was Argyle Street Management selected ? Is ASM a truly independent third party? Why did Keppel provide extremely generous financing terms to AssetCo? Is Keppel now acknowledging that ASM was not the right party?**

**3**

**Why is Keppel now raising a private fund to take back the legacy rigs? What expertise does Keppel now have? Legacy rigs are not attractive assets both commercially and ESG wise. Inclusion of Floatel makes the asset bundle less attractive. If this is more like a one-off fund, it raises questions about Keppel's fund strategy.**

Given the size of the transaction and the material role the divestment of legacy rigs plays in Keppel's Vision 2030, **we call on Keppel to provide full disclosures on its plans for AssetCo.**

# Appendix I: What happened to Keppel's O&M business prior to the spin-off?

Keppel's O&M division designs and manufactures offshore oil rigs for operators which rent them out to upstream oil producers. Pre-2014, Keppel's O&M business was generating steady net profits of ~S$1bn annually and driving >50% of Group revenues. The unit was a core part of Keppel's DNA and yet by 2019, revenues were a meagre 26% of what they were in the hey day of 2014.

By 2020, Keppel had ceased to disclose segment P&L and by Apr'22, the decision was made to exit the business permanently through a combination with Sembcorp Marine.

## 1 Steep sell-off in oil markets

Crude Oil Price (US$ / bbl)


## 2 O&M's waning profits

**Summary P&L in S$mn**

| in S$mn | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| O&M Revenue | 7,963 | 7,126 | 8,556 | 6,241 | 2,854 | 1,802 | 1,875 | 2,220 |
| O&M NPAT | 949 | 945 | 1,040 | 482 | 29 | -826 | -109 | 10 |
| *NPAT Margin %* | *11.9%* | *13.3%* | *12.2%* | *7.7%* | *1.0%* | *-45.8%* | *-5.8%* | *0.5%* |
| | | | | | | | | |
| Group Revenue | 13,965 | 12,380 | 13,283 | 10,296 | 6,767 | 5,964 | 5,965 | 7,580 |
| Group NPAT | 2,237 | 1,846 | 1,885 | 1,525 | 784 | 217 | 948 | 707 |
| *NPAT Margin %* | *16.0%* | *14.9%* | *14.2%* | *14.8%* | *11.6%* | *3.6%* | *15.9%* | *9.3%* |
| **O&M P&L as % of Group** | | | | | | | | |
| Revenue | 57% | 58% | 64% | 61% | 42% | 30% | 31% | 29% |
| NPAT | 42% | 51% | 55% | 32% | 4% | n.m | n.m | 1% |

1
- Keppel's O&M troubles started in May'14 when booming US oil production, receding geopolitical concerns, and shifting OPEC policies created an oversupply. Oil prices began to plummet from US$109 in May'14 to US$27 in Dec'14, and finally bottoming at US$25 in Apr'16. Oil prices never recovered to the levels seen in 2011-2014
- Keppel's end clients like Awilco and Borr Drilling, saw their rig utilisation rates and day rates plummet during this period. To manage their capex, these operators either terminated or revised their contracts with Keppel. Take for example Borr Drilling's US$745mn order for 5 rigs in May'18 (1) which was expected to be fully completed by 2020. **As of Nov'22, Keppel had only received US$160mn for 1 of these rigs(2)**

2
- For 6 years, Keppel faced uncertainty over whether its O&M business would recover. Even in 2019, O&M continued to drive a significant portion of the business, generating 29% of revenues (albeit contributing only 1% in NPAT)
- To execute a spin-off of this scale **without a pool of natural buyers** for its O&M division, management risked the incurring a heavy write-down on a firesale and was unlikely to receive shareholder support for a transaction they deemed necessary for Keppel's survival

Source: Yahoo Finance, annual reports

# Appendix II: AssetCo Transaction Overview

## S$4.4bn Consideration for In-Scope Assets

1 **S$499k in Ordinary Shares** (implying 10% equity ownership in AssetCo)

2 **S$120mn PIK Toggle Perpetual Securities:**

- 10% dividend yield paid semi-annually
- AssetCo may elect to pay interest (i) entirely in cash (ii) entirely in additional PIK Toggle Perpetual Securities or (iii) a combination of (i) and (ii)
- No fixed redemption date, redeemed at option of AssetCo on or after 5 years from date of issuance

3 **S$4,251mn Vendor Notes:**

- 12 year tenor, 4% fixed interest rate paid annually
- AssetCo may elect to pay interest (i) entirely in cash (ii) entirely in additional Vendor Notes or (iii) a combination of (i) and (ii)
- Option of AssetCo to extend maturity to any date as long as notes are repaid by the 15th year
- Option of AssetCo to redeem outstanding principal with unpaid accrued interest and redemption premium of 5% of outstanding principal amount

**IFA's comparison against existing Keppel bonds at the time of issuance in Nov'22[1]:**

| Announcement Date | Issuer | Total issue size (S$m) | Tenure (years) | Coupon rate per annum (%) | Issuance includes non-Interested Persons | Lead managers/ Book-runners appointed |
|---|---|---|---|---|---|---|
| 29 August 2012 | KCL | 300.0 | 30 | 4.00 | Yes | Yes |
| 7 May 2019 | KCL | 350.0 | 10 | 3.66 | Yes | Yes |
| 27 October 2022 | Asset Co | 3,937.7 | 12 | 4.00 | No | No |

Source: Bloomberg

**Per Keppel's FY23 Annual Report (pg 159), subscription price for Vendor Notes was S$4,251,144,000**

## In-Scope Assets transferred to AssetCo

1 **Legacy Rigs**

1. CAN-DO Vessel
2. Heidrun Vessel
3. Huldra Vessel
4. Nordic Spring Vessel
5. Nordic Winter Vessel
6. Sapura Raiga Vessel
7. Tivar Vessel
8. TS Jasper Vessel
9. Vale Vessel
10. Var Vessel

2 **Ownership in Keppel O&M Subsidiaries**

1. FELS Asset Co Pte. Ltd.
2. FELS Asset Co 2 Pte. Ltd.
3. Fernvale Pte. Ltd.
4. Lenity Pioneer
5. Offshore Partners Pte. Ltd.
6. Offshore Partners 2 Pte. Ltd.
7. FELS Asset Co 3 Pte. Ltd.
8. FELS Asset Co 4 Pte. Ltd.
9. FELS Asset Co 5 Pte. Ltd.
10. FELS Asset Co 6 Pte. Ltd.

3 **InterCo Loans to:**

1. FELS Asset Co Pte. Ltd.
2. FELS Asset Co 2 Pte. Ltd.
3. Fernvale Pte. Ltd.
4. Lenity Pioneer
5. Offshore Partners Pte. Ltd.
6. Offshore Partners 2 Pte. Ltd.

Source: company websites, company disclosures
Note: As of Shareholder's Circular Resolution on 23 Nov'22

# Appendix III: TIH and ASM don't appear to have the scale to manage $4bn AssetCo (1/2)

## Top 10 TIH Investments (FY23 Annual Report)

1

CHF V appears to have total AUM of ~S$200mn based on TIH's 7.23% stake valued at S$14.8mn

**10 Largest Investments as at 31 December 2023+**

| Group | Sector | Cost S$'000 | Carrying Amount As At 31 December 2023 S$'000 | % of Shareholding | Share of Underlying Earnings# S$'000 | Net Assets (at book value) Attributable To Investments# S$'000 | Gross Dividends/ Distributions S$'000 |
|---|---|---|---|---|---|---|---|
| ***Investments at fair value through profit or loss*** | | | | | | | |
| Fortune Crane Limited | Property and Development | 56,830^ | 42,467^ | 7.95 | (814) | 10,300 | – |
| ASM Connaught House General Partner II Limited | Fund Investment - Private Credit | 9,777 | 24,000 | 30.00 | (4,102) | 24,000 | 4,866 |
| Vasanta Sub-Fund 1 | Fund Investment - Public Equity | 20,055 | 23,506 | 30.87 | 2,835 | 23,506 | – |
| 1 ASM Connaught House Fund V LP | Fund Investment - Private Credit | 13,952 | 14,835 | 7.23 | 578 | 14,835 | – |
| ASM Connaught House Fund III LP | Fund Investment - Private Credit | 6,451 | 7,734 | 1.86 | 76 | 7,734 | – |
| Sungei Road Limited | Financial Services | 6,238 | 6,482 | 8.33 | (1) | 6,482 | – |
| ASM Connaught House General Partner III Limited | Fund Investment - Private Credit | 4 | 2,431 | 30.00 | 131 | 2,431 | – |
| ASM Connaught House Fund II LP | Fund Investment - Private Credit | 1,875 | 1,805 | 1.39 | (10) | 1,805 | – |
| ASM Connaught House Fund LP | Fund Investment - Private Credit | 1,640 | 1,687 | 1.04 | 99 | 1,687 | 101 |
| Robyn Hode Capital Holding Limited | Consulting / Financial services | 52 | 1,197 | 17.27 | 527 | 1,197 | – |
| Total | | 116,874 | 126,144 | | | | |

## Total TIH Assets of S$145mn (FY23 Annual Report)

| | Note | Group 2023 $'000 | Group 2022 $'000 | Company 2023 $'000 | Company 2022 $'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 4 | **12,240** | 19,034 | **9,219** | 14,512 |
| Other receivables | 5 | **2,535** | 2,443 | **802** | 805 |
| Amounts due from subsidiaries | | **423** | 470 | **340** | 357 |
| Debt investment at FVTPL | 6 | **42,467** | 41,730 | **42,467** | 41,730 |
| | | **57,665** | 63,677 | **52,828** | 57,404 |
| **Non-current assets** | | | | | |
| Investments | | | | | |
| - Equity investments at FVTPL | 7 | **86,803** | 87,660 | **86,803** | 87,660 |
| - Subsidiary | 8 | **–** | – | **7,000** | 7,000 |
| | | **86,803** | 87,660 | **93,803** | 94,660 |
| Property, plant and equipment | 9 | **37** | 57 | **–** | – |
| Right-of-use assets | 10 | **341** | 264 | **–** | – |
| | | **87,181** | 87,981 | **93,803** | 94,660 |
| **Total assets** | | **144,846** | 151,658 | **146,631** | 152,064 |

# Appendix III: TIH does not appear to have experience in offshore business (2/2)

## TIH Track Record (Company Website)

### Investment Portfolios

#### Portfolio Companies

- **Fortune Crane Limited**: Fortune Crane Limited (formerly known as Fortune Code Limited) invests indirectly in OUE Limited, a diversified real estate owner, developer and operator listed on the SGX-ST with a real estate portfolio located in prime locations in Asia.
- **ASM Connaught House General Partner II Limited & ASM Connaught House Fund III**: ASM Connaught House General Partner II Limited is the general partner to ASM Connaught House Fund II LP ("CHF II Fund"), an investment fund that focuses on special situation opportunities. ASM Connaught House Fund III ("CHF III Fund") targets event driven opportunities, particularly investments in companies that offer attractive valuations as the result of adverse effects from withdrawal of liquidity in the region, financial market volatility and/or currency shocks. TIHIM is the non-discretionary investment advisor to CHF II Fund and CHF III Fund.
- **Vasanta Fund 1 SP**: Focuses on undervalued listed companies in Asia Pacific and unlock value through active engagement with management and stakeholders. TIHIM is the investment manager to the fund.
- **Sungei Road Limited**: Sungei Road Limited is an investment into an Indonesian financial service business.
- **TIHT Investment Holdings Pte. Ltd.**: TIHT Investment Holdings Pte. Ltd. is indirectly 55% owned by TIH and 45% by Republic Technologies Pte Ltd. It holds a stake in SGX-listed CEI Limited.
- **Batavia Enterprise Limited**: Batavia Enterprise Limited is a company focused on property development projects in Taiwan.
- **Capas Road Limited**: Capas Road Limited is an investment into an Indonesian financial service business.
- **K2 Venture Capital Company Limited**: K2 Venture Capital Company Limited is a venture capital company mainly focused on investing in early stage technology ventures in Thailand which are scalable regionally.
- **Lop Buri Limited**: Lop Buri Limited operates a litigation funding business which seeks to invest in suitable litigation funding related investment opportunities in the Asian region.

#### Selected Divested Portfolio Companies

- **Tingyi (Cayman Islands) Holding Corporation**: A manufacturer of instant noodles with operations in Taiwan and China
- **Foshan Nanhai Zhongnan Aluminum Wheel Co., Ltd**: Chinese manufacturer of aluminum wheels and components for international automotive companies
- **Eastern Multimedia Company**: A Taiwanese producer of media content and operator of various media platforms including television stations, radio station, home-shopping channels, and internet news portal
- **Foodstar**: One of the largest Chinese manufacturers/processors of premium branded soy sauces and fermented bean curd
- **Oculex Asia Pharmaceuticals Ltd**: Investment into a Singapore subsidiary of a US pharmaceuticals company in the business of development and manufacturing of innovative drug delivery systems to the eyes
- **Hsu Fu Chi**: Taiwanese manufacturer and distributor of Chinese snacks to the Taiwanese and Chinese markets
- **Medical Imaging Australasia Limited**: A large Australian medical diagnostics group
- **Watchdata Technologies Ltd**: A developer and provider of system software and enabling solutions for electronic transactions combined with data security and encryption functions
- **AEM Holdings**: A SGX-listed, leading semiconductor equipment manufacturer based in Singapore
- **United Test and Assembly Center**: A provider of semiconductor assembly and testing services for a broad range of integrated circuits
- **Neo-Neon Holdings**: A HKSE-listed and Hong Kong-based leading manufacturer of rope light and other decorative lighting
- **Advanced Communication Equipment (International) Co., Ltd.**: A provider of integrated services in the Broadcasting and Telecommunications markets in Hong Kong and China, covering Multimedia, Video, Pro-Audio, Pro-Sound, Lighting and Musical Instruments
- **Mitsui Life Insurance Company Limited**: A Tokyo-based provider of insurance products to individuals and groups in Japan, covering life insurance, property and casualty insurance, group pension plans, group annuity investment products and mutual funds

## Chairman's Message (Company Website)

### Chairman Message

Argyle Street Management (ASM) began to be intimately involved in the affairs of TIH in its capacity of a significant shareholder after ASM acquired DBS' stake in TIH in 2003. Ms Angie Li, a director of ASM and myself, a director of ASM Asia Recovery (Master) Fund, a substantial shareholder of TIH, have had the pleasure of working closely with the outstanding TIH management team over the years. Angie Li has been a board member since 2006 and I have been a board member since Oct 2004.

Together, we were able to effectuate profitable exits from a variety of complex situations including the strategic sale of Foodstar to Heinz, IPOs of Hsu Fu Chi in Singapore and Neo Neon in Hong Kong, sale of minority positions in Bukaka Singtel in Indonesia, Eastern Multimedia in Taiwan as well as Zhongnan and Watchdata in China to financial buyers. We were able to exit at valuation multiple times our costs and book value carried on our books. Since 2003, TIH has delivered to its shareholders an internal rate of return of 42.8%. The dividends received alone account for 60% of the total return to our shareholders.

I am grateful to all TIH shareholders for their support and patience. The last several years have not been smooth sailing. We went through the worst financial crisis the world has seen since the 1930s. The fund management business is also evolving rapidly. At this juncture, established funds with enormous balance sheets such as KKR, Carlyle, TPG and CVC are expanding aggressively in the private equity/venture capital business in Asia. As a niche player, TIH must seriously and objectively evaluate our strengths to determine our strategic positioning and tap our competitive advantages in this brave new world.

We believe one of our greatest strengths lie in our execution abilities, particularly when it comes to creating profitable exits in difficult situations. We have accumulated 20 years of experience and expertise in corporate finance and M&A knowledge in both Greater China and the ASEAN region. We see significant opportunities in acquiring non-core assets whose existing owners may have lost interest and lack personnel to undertake active management of such assets.

Our strategic relationships built over the years are unique and will stand us in good stead going forward. As a local player with decades of track record, TIH - along with ASM - enjoy close relationships with and access to significant strategic players including family offices and sovereign wealth funds. These strategic partners will enhance our co-investment firepower as well as deal sourcing capabilities.

Going forward, we shall avoid competing head-on with global behemoths. Instead, we will focus on leveraging on our competitive advantages. TIH will position itself as the service provider to our partners who place their confidence in us to help enhance value for all stakeholders and create exit opportunities. We see little competition in the buying and management of complex secondary portfolios.

We are in the midst of discussions with various partners to participate in our growth through equity investments or joint venture.

In October 2014, the Company, through its subsidiary, TIHT Investment Holdings Pte Ltd ( TIHT ), has completed a S$129 million acquisition of assets from Temasek comprises a minority interests in CEI Contract Manufacturing Limited ( CEI ) and the assignment of beneficial ownership in a minority interest in Mitsui Life Insurance Company Limited. The consideration of S$129 million is payable partly in cash, partly by way of financing and an issue of shares in TIHT. Post completion, TIHT is indirectly owned 55% by TIH and 45% by Temasek.

This acquisition is very much in line with TIH's new strategy to expand our business beyond private equity and venture capital investments. We are delighted with the confidence placed in us to help create value for all stakeholders. Through TIHT, we will work hard at enhancing capital return and optimizing value to deliver mutually rewarding returns to both parties.

TIH plans to expand its investment coverage to include special situation investment opportunities with listed and private companies. As such, we will broaden and deepen our strategic relationships with significant market players in the Greater China and Southeast Asia region to improve deal sourcing and asset management capabilities. We look forward to creating value and cementing our relationships with our strategic partners by entering into "repeat" transactions that are mutually beneficial to TIH and our strategic partners.

We are very excited about the achievements that the Company and its management have made since the completion of the internalization and are hopeful that the Company's business initiatives will succeed and the management deliver solid financial performance.

Thank you for all your support. We look forward to an exciting and rewarding journey for both the Company and our shareholders in the future.

**Kin Chan** ( Chairman )

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