

REPORT OF THE DIRECTORS

The Directors present their report to the members together with the audited accounts of the Company and of the Group for the year ended 31 December 1999.

On 14 January 2000, the Company (formerly known as Jurong Shipyard Limited) changed its name to SembCorp Marine Ltd.

PRINCIPAL ACTIVITIES

The principal activities of the Company are ship building, repairing and conversion and non-maritime steel fabrication work. The principal activities of its subsidiary companies are :

- a) investment holding;
- b) ship owning and ship repair;
- c) the supply of equipment rental services;
- d) the trading in copper slag and related materials;
- e) the cleaning and maintenance of industrial premises;
- f) the processing and distribution of copper slag for grit blasting and building;
- g) the provision of marine, general electronic, electrical works and general contracting services;
- h) the fabrication of metal structures.

There have been no significant changes in the nature of the activities of the Company and its subsidiaries during the financial year.

RESULTS FOR THE FINANCIAL YEAR

	Group \$'000	Company \$'000
Profit after taxation and minority interests	78,350	61,794
Transfer from revenue reserves	–	413
	<hr/>	<hr/>
	78,350	62,207
Dividends paid and proposed, less tax	(62,207)	(62,207)
	<hr/>	<hr/>
Retained profit transferred to revenue reserves	16,143	–

In the opinion of the Directors, the results of the operations of the Company and of the Group during the financial year have not been affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

During the financial year the following dividends were paid by the Company:

- (a) a final dividend of 20%, less tax of 26% and a special dividend of 45%, less tax of 26% in respect of the previous financial year and as proposed in the Report of the Directors of that year. The amounts paid totalled \$33,553,555 based on the number of issued shares at the date of payment of the dividend.
- (b) an interim dividend of 15%, less tax of 26%, amounting to \$7,743,128 and a special dividend of 30%, less tax of 26%, amounting to \$15,486,256, in respect of the financial year under review.

The Directors propose a final dividend of 20%, less tax of 25.5%, amounting to \$10,394,078 and a special dividend of 55% less tax of 25.5%, amounting to \$28,583,714, be paid in respect of the financial year under review.

REPORT OF THE DIRECTORS

TRANSFERS TO/FROM RESERVES AND PROVISIONS

	Group \$'000	Company \$'000
The following amounts have been (debited)/credited to:		
Revenue reserves		
Capitalised by an associated company upon bonus issue	(273)	–
Reclassification to foreign currency translation reserve by an associated company	(266)	–
Dilution of equity interest in an associated company	(171)	–
Non-distributable reserves		
Foreign currency translation reserves -		
Reclassification from revenue reserves by an associated company	266	–
Exchange differences arising on consolidation	939	–
Share premium and other capital reserves -		
Goodwill on acquisition of a subsidiary company	(890)	–
Share of an associated company's share premium account and capital reserves	703	–
Premium on issue of ordinary shares	12	12

SHARE CAPITAL AND SHARE OPTIONS**Share options**

During the financial year, except as disclosed below, there were no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries:

a) Options granted under the Jurong Shipyard Executives' Share Option Scheme

Options were granted in 1999 (the "1999 Options") pursuant to the Jurong Shipyard Executives' Share Option Scheme (the "Scheme") in respect of a total of 895,000 unissued ordinary shares of \$0.50 each to 168 full time executives of the Company who are holding the rank of manager (or equivalent position) and above and who are not substantial shareholders of the Company. The 1999 options are exercisable from 10 March 2001 to 9 March 2004 and the exercise price is \$6.47 per share for cash. The Scheme was started in 1991 and details of the Scheme were set out in the accounts of that year. The fair value of each option granted at the date of grant of \$8.85 is estimated using the Black-Scholes option-pricing model as permitted by United States Financial Accounting Standard No. 123, with the following assumptions: dividend yield of 2.63%, risk free interest rate of 4.41%, expected volatility of 41.48% and expected lives of 2.5 years.

b) Issue of shares under options

A total of 2,000 ordinary shares of \$0.50 each in the Company were issued, at par for cash, at the subscription price of \$6.47, pursuant to the exercise of 1999 options by a retired executive to take up unissued shares of the Company under the Scheme.

c) Unissued shares under options

At the end of the financial year, unissued shares of the Company under the Scheme are as follows:

Option category	Number of holders	Exercise period	Number of options	Exercise price
1998	133	27.4.2000 to 26.4.2003	867,000	\$7.85
1999	163	10.3.2001 to 9.3.2004	873,000	\$6.47

Save as disclosed above, there were no unissued shares of the Company or its subsidiaries under option as at the end of the financial year.

The options granted by the Company do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any other company.

REPORT OF THE DIRECTORS

d) **Proforma financial effect under United States Financial Accounting Standard No. 123**

Strictly for information purposes only, the proforma profit after taxation and minority interests but before and after extraordinary items and the earnings per share would have been as follows had the Company accounted for the fair value of the options granted under United States Financial Accounting Standard No. 123.

	1999 \$'000
Profit after taxation and minority interests but before and after extraordinary items:	
As reported	78,350
Proforma	77,724
Earnings per share (cents):	
As reported	56.2
Proforma	55.7
Diluted earnings per share:	
As reported	55.9
Proforma	55.5

These proforma amounts may not be representative of future disclosures since the estimated fair value of the share options is determined for the first time in respect of grants made for the financial year ended 31 December 1999 and which is amortised over the vesting period and additional options may be granted in future years.

SUB-DIVISION OF SHARES AND INCREASE IN SHARE CAPITAL

Subsequent to year-end, on 14 January 2000, the Company:

- (i) sub-divided its ordinary shares of \$0.50 each into ordinary shares of \$0.10 each
- (ii) increased its authorised share capital from \$120,000,000 comprising 240,000,000 ordinary shares of \$0.50 each to \$500,000,000 comprising 5,000,000,000 ordinary shares of \$0.10 each, by the creation of 3,800,000,000 ordinary shares of \$0.10 each
- (iii) adjusted the existing share options granted under the Scheme following the subdivision, as follows:

Date options granted	Number of options outstanding as at 31 December 1999	Adjusted number of options outstanding	Original subscription price	Adjusted subscription price
27 April 1998	867,000	4,335,000	\$7.85	\$1.57
10 March 1999	873,000	4,365,000	\$6.47	\$1.29

REPORT OF THE DIRECTORS

DIRECTORS OF THE COMPANY

The names of the Directors of the Company in office at the date of this report are:

Wong Kok Siew	Chairman
Tan Kwi Kin	President
Chee Keng Soon	
Giam Chin Toon	
Ryuhei Nose	
Er Kwong Wah	
Masahiro Miyazaki	

With the exception as stated below, no other Directors who held office at the end of the financial year had, according to the register required to be kept under Section 164 of the Companies Act, Cap.50, an interest in shares or debentures of the ultimate holding company, Temasek Holdings (Private) Limited or any other related corporations:-

Name of Director and corporation in which interests held	Description of interests	Shareholdings registered in the name of Director		Other shareholdings in which the Director is deemed to have an interest	
		At beginning of the year	At end of the year	At beginning of the year	At end of the year
Wong Kok Siew					
SembCorp Industries Ltd	Ordinary shares of \$0.25 each	236,446	236,446	–	–
	Options to subscribe for ordinary shares of \$0.25 each at \$2.26 per share	–	500,000	–	–
Singapore Technologies Engineering Ltd	Ordinary shares of \$0.10 each	5,137	5,137	–	–
Singapore Telecommunication Ltd	Ordinary shares of \$0.15 each	1,500	1,560	1,380	1,440
Singapore Food Industries Limited	Ordinary shares of \$0.05 each	–	80,000	–	–
	Options to subscribe for ordinary shares of \$0.05 each at \$0.78 per share	–	100,000	–	–
Tan Kwi Kin					
SembCorp Marine Ltd ("the Company")	Ordinary shares of \$0.50 each	10,000	10,000	–	–
	Options to subscribe for ordinary shares of \$0.50 each at \$7.85 per share	40,000	40,000	–	–
	Options to subscribe for ordinary shares of \$0.50 each at \$6.47 per share	–	40,000	–	–
Singapore Telecommunications Ltd	Ordinary shares of \$0.15 each	200	200	200	200
Singapore Food Industries Limited	Ordinary shares of \$0.05 each	–	18,000	–	–

REPORT OF THE DIRECTORS

Name of Director and corporation in which interests held	Description of interests	Shareholdings registered in the name of Director		Other shareholdings in which the Director is deemed to have an interest	
		At beginning of the year	At end of the year	At beginning of the year	At end of the year
Chee Keng Soon					
SembCorp Industries Ltd	Ordinary shares of \$0.25 each	–	–	12,951	12,951
Singapore Telecommunications Ltd	Ordinary shares of \$0.15 each	200	200	5,200	5,200
Singapore Airlines Ltd	Ordinary shares of \$1.00 each	4,000	4,000	4,000	4,000
SNP Corporation Ltd	Ordinary shares of \$0.50 each	–	–	5,000	5,000

There was no change in the Directors' interests between the end of the financial year and 21 January 2000 with the exception that upon the sub-division of one ordinary share of \$0.50 each of the Company into five ordinary shares of \$0.10 each on 14 January 2000, Mr Tan Kwi Kin's interest in shares becomes 50,000 and his interest in options to subscribe for unissued shares of \$0.10 each becomes 200,000 at \$1.57 per share and 200,000 at \$1.29 per share respectively.

Since the end of the previous financial year, no Director has received or has become entitled to receive benefits under contracts required to be disclosed by Section 201(8) of the Companies Act, Cap.50.

Other than the Jurong Shipyard Executives' Share Option Scheme, neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements, to which the Company is a party, whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

AUDIT COMMITTEE

The Audit Committee's ("Committee") principal functions are to review the audit plans and the scope of examination of the external auditor of the Company. It also evaluates the findings of the external auditor's review of the internal accounting controls of the Company and the Group. The response of management to these findings is monitored to ensure that appropriate follow-up measures are taken. The Committee's activities include a review of the financial statements of the Company and of the Group for the year ended 31 December 1999 and the report of the external auditor thereon.

For the year ended 31 December 1999, the Committee held four meetings.

The Committee has recommended to the Board that the auditor, Ernst & Young be nominated for re-appointment as auditor at the forthcoming Annual General Meeting of the Company.

REPORT OF THE DIRECTORS

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

There were no other acquisition or disposal of subsidiaries during the financial year except the following:-

Acquisitions by the Company

	Group's effective interest acquired %	Consideration \$'000	Net attributable tangible assets \$'000
SML Shipyard Pte Ltd	100	12,000	11,110

SML Shipyard Pte Ltd has a fully owned subsidiary, SMLazar Asia Pacific Pte Ltd.

During the financial year, shares were issued by the following subsidiaries:

	Description of share issue	Purpose of issue
Jurong Machinery and Automation Pte Ltd	2 ordinary shares of \$1 each at par for cash	Subscriber shares on incorporation of the company
Jurong Shipyard Pte Ltd	2 ordinary shares of \$1 each at par for cash	Subscriber shares on incorporation of the company
Dolphin Shipping Company Pte Ltd	499,998 ordinary shares of \$1 each at par for cash	Provide funds to purchase a vessel

Disposal by a subsidiary company

	Group's effective interest disposed %	Consideration \$'000	Net attributable tangible assets \$'000
Compacific Engineering Pte Ltd	60	*	*

* The above subsidiary was disposed for a nominal sum of \$3, including its associated company, Beijing Bravery International Simulator Engineering Co Ltd. The net attributable tangible assets were not material.

ASSET VALUES

Before the profit and loss account and balance sheet of the Company were made out, the Directors took reasonable steps to ascertain that:

- (a) action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision for doubtful debts had been made; and
- (b) any current assets which were unlikely to realise their book value in the ordinary course of business had been written down to their estimated realisable values or adequate provision had been made for the difference between those values.

At the date of this report, the Directors are not aware of any circumstances which would render:

- (a) any amount written off or provided for bad and doubtful debts in the Group inadequate to any substantial extent; and
- (b) the values attributed to current assets in the consolidated accounts misleading.

REPORT OF THE DIRECTORS**CHARGES AND CONTINGENT LIABILITIES**

Since the end of the financial year no charge on the assets of the Company or any company in the Group has arisen which secures the liabilities of any other person.

Since the end of the financial year no contingent liability of the Company or any company in the Group has arisen.

No contingent or other liability of the Company or any company in the Group has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company and of the Group to meet their obligations as and when they fall due.

OTHER CIRCUMSTANCES AFFECTING THE ACCOUNTS

At the date of this report the Directors are not aware of any circumstances not otherwise dealt with in this report or the consolidated accounts which would render any amount stated in the accounts of the Company and the consolidated accounts of the Group misleading.

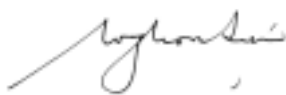
UNUSUAL ITEMS AFTER THE FINANCIAL YEAR

In the opinion of the Directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which would affect substantially the results of the operations of the Company or of the Group for the financial year in which this report is made.

AUDITORS

The auditor, Ernst & Young, Certified Public Accountants, Singapore, has expressed their willingness to accept appointment as auditor of the Company.

On behalf of the Board,



WONG KOK SIEW
Chairman



TAN KWI KIN
President

1 March 2000
Singapore

CORPORATE GOVERNANCE STATEMENT

The Board of Directors (the "Board") is pleased to report on its corporate governance activities and processes for the financial year ended 31 December 1999. The Company's corporate governance currently embraces the best practices contained in the Best Practices Guide issued by the Singapore Exchange Securities Trading Limited.

REPORT ON CORPORATE GOVERNANCE ACTIVITIES AND PROCESSES**THE BOARD OF DIRECTORS**

Presently, the Board comprises seven Directors. At the last Annual General Meeting of the Company, Mr Wong Kok Siew succeeded Mr Lua Cheng Eng as Chairman, whilst Mr Masahiro Miyazaki was appointed as Director. The Board meets regularly throughout the year and during the year under review, the Board met seven times.

AUDIT COMMITTEE

The Audit Committee (the "Committee") consists of three members of which two are independent and is chaired by Mr Chee Keng Soon. The Committee met four times during the year under review.

The main responsibility of the Committee is to review with the internal auditors and management, the Company's general policies and control procedures, as well as interested persons transactions. The Committee also reviews with the external, internal auditors and management the adequacy of internal accounting controls and financial reporting controls, as well as the financial statements. The Committee may suggest matters to be included for review by the external and internal auditors and may meet with the external or internal auditors to discuss any matters that the Committee or external or internal auditors believe should be discussed privately with the Audit Committee without the presence of management.

THE EXECUTIVES' SHARE OPTION SCHEME COMMITTEE

The Executives' Share Option Scheme Committee currently comprises two directors of the Company. The Committee reviews and determines the eligibility of full-time employees of the Company and its subsidiaries and any other eligible persons to participate in the Share Option Scheme and the number of options to be offered to each participant, in accordance with the terms and conditions of the Share Option Scheme.

DEALING IN SECURITIES

The Company has adopted a Code of Compliance on Dealing in Securities, whereby there should be no dealings in the Company's securities by its officers during the period commencing one month prior to the announcement of the Company's annual or half-year results. Directors and executives are also expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period.

YEAR 2000 ISSUES

The Group successfully completed the rollover on 9 September 1999 and 1 January 2000. The Group incurred a total sum of \$3.6 million for the replacement and upgrading of the Group's computer systems. These costs will be amortised in accordance with the Group's depreciation policy on computer hardware and software.

STATEMENT BY DIRECTORS PURSUANT TO SECTION 201(15)

We, Wong Kok Siew and Tan Kwi Kin, being two of the Directors of SembCorp Marine Ltd, do hereby state that, in the opinion of the Directors:

- (a) the accompanying accounts set out on pages 43 to 70 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1999; and of the results of the Company and the Group, and the cash flows of the Group, for the year ended on that date;
- (b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board,



WONG KOK SIEW
Chairman



TAN KWI KIN
President

1 March 2000
Singapore