



ANNUAL  
REPORT  
2007

M A R C O P O L O M A R I N E L T D

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## **CONTENTS**

Corporate Information	1
Corporate Profile	3
Group Structure	5
Chairman's Statement	7
Operations Review By CEO	11
Key Financials	14
Board of Directors	17
Key Executive Officers	19
Financials Contents	21



## **CORPORATE INFORMATION**

### **Board of Directors**

Lee Wan Tang (*Executive Chairman*)  
Sean Lee Yun Feng (*Chief Executive Officer*)  
Liely Lee (*Executive Director*)  
Lai Qin Zhi (*Non-executive Director*)  
Lim Han Boon (*Lead Independent Director*)  
Sim Swee Yam Peter (*Independent Director*)

### **Audit Committee**

Lim Han Boon (*Chairman*)  
Sim Swee Yam Peter  
Lai Qin Zhi

### **Nominating Committee**

Sim Swee Yam Peter (*Chairman*)  
Lim Han Boon  
Lai Qin Zhi

### **Remuneration Committee**

Lim Han Boon (*Chairman*)  
Sim Swee Yam Peter  
Lai Qin Zhi

### **Company Secretary**

Kwan Hon Kay @ Lawrence Kwan

### **Registered Office**

1 Sims Lane, #04-11, Singapore 387355

### **Registrar**

Boardroom Corporate & Advisory Services Pte. Ltd  
3 Church Street, #08-01, Samsung Hub,  
Singapore 048624

### **Auditors**

Horwath First Trust  
Certified Public Accountants  
7 Temasek Boulevard, #11-01, Suntec Tower 1,  
Singapore 038987  
*Partner-in-charge: Alfred Cheong Keng Chuan*  
*(Appointed since financial year ended 30 September 2006)*

### **Principal Bankers**

United Overseas Bank Limited  
DBS Bank Limited

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## **CORPORATE PROFILE**

Marco Polo Marine, a growing integrated shipping group, is principally engaged in the ship chartering and shipyard businesses. The Group's ship chartering business includes the provision of chartering, re-chartering and transshipment services of tugboats and barges to customers and end-users from the mining, commodity, trading, shipping, construction, infrastructure, property development and land reclamation industries.

In addition, the Group provides transshipment services, which involve the transportation of coal mined in Indonesia to coal operators for their onward transportation to energy power plants in the South East Asia regions.

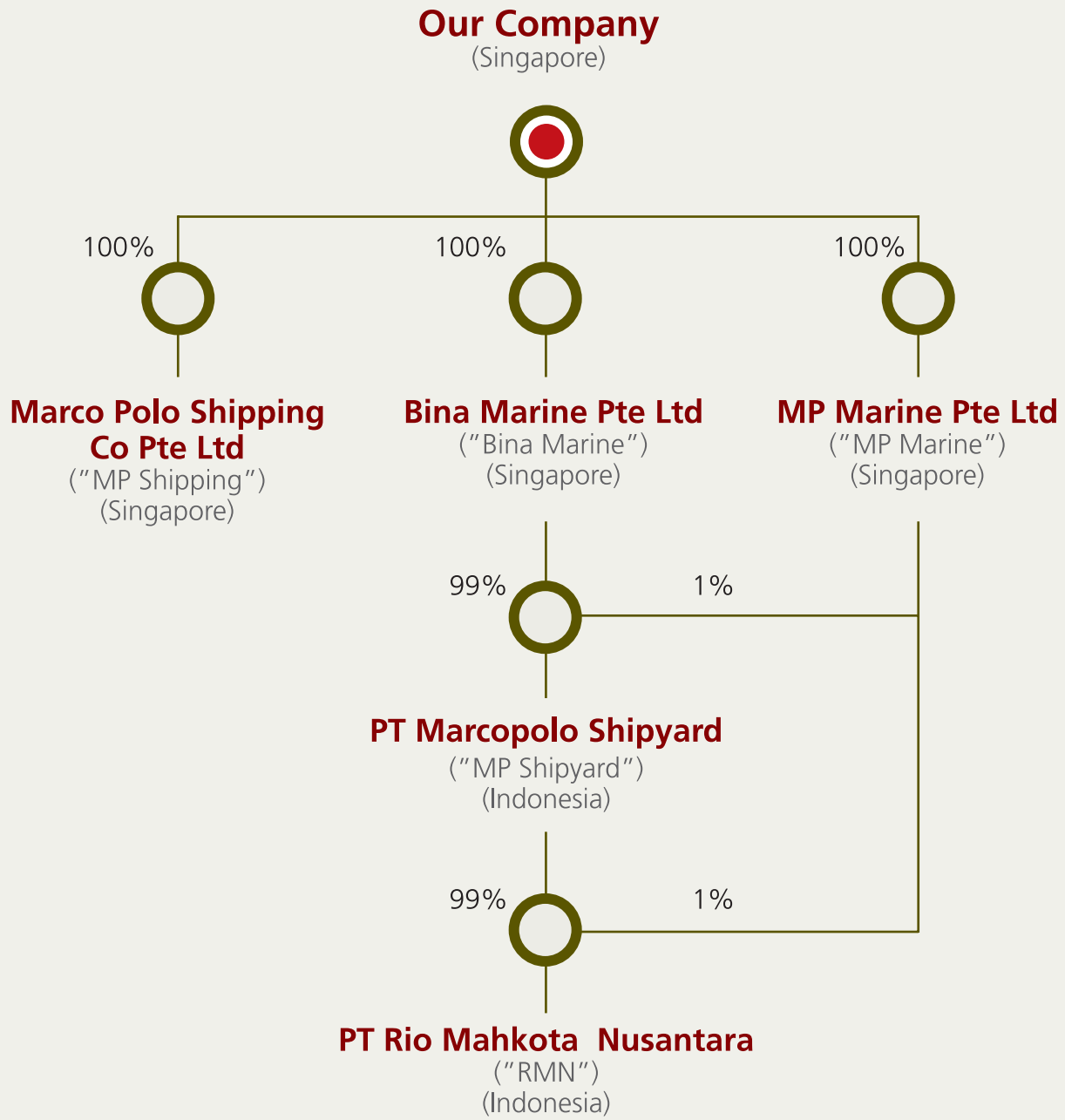
The Group's shipyard business includes the provision of building, repairing and broking services of tugboats and barges. The Group commenced its ship building operations in December 2005, and builds tugboats and barges to support its ship chartering operations, as well as to meet external demand.

The Group's shipyard is strategically located in Batam, Indonesia, occupying a total land area of approximately 348,705 square metres, with a seafront of approximately 650 metres. Presently, the Group is in the process of expanding its shipyard. When completed, its shipyard is expected to be one of the larger shipyards in Batam.

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## GROUP STRUCTURE



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## **CHAIRMAN'S STATEMENT**

Dear Shareholders,

Welcome on board Marco Polo Marine! As we embark on this new voyage together, I would like to take this opportunity to reiterate my appreciation to all shareholders who have given us your support and contributed to the overwhelming response of our initial public offer (IPO) in October 2007. From now on, we are partners in this exciting growth journey of our dynamic marine group.

Marco Polo Marine is in a period of strong growth. Over the past few years, our growth momentum has been gathering speed, and progress has been tremendous. As at September 30, 2007, we had a fleet size of 25 vessels, up from 18 vessels at the start of the financial year ended September 30, 2006 ("FY2006"). The number of vessels under construction doubled from 15 in FY2006 to 32 in FY2007. FY2007 revenue and net profit was over eight times higher than that in FY2004.

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## **FY2007 IN REVIEW**

FY2007 was indeed a phenomenal year for us. Revenue soared 134% from S\$15.9 million in FY2006 to S\$37.1 million in FY2007. Net profit surged 55.7% to S\$8.4 million, up from S\$5.4 million in FY2006.

Demand for our ship chartering and ship building services rose strongly, driven by the regional boom in construction, infrastructure and property development. With our vessels plying mainly the waters of Singapore, Indonesia and Malaysia, we were and will continue to be, a clear beneficiary of the favourable business environment. With the consistent quality and timely delivery of our services, we have been steadily building up a growing and increasingly diversified customer base in the region.

As a result, revenue from ship chartering operations surged 46.6% to S\$17.4 million in FY2007, up from S\$11.9 million in FY2006. To cater to the rising demand for our chartering services, we have been expanding our fleet size.

Our ship building operations, which was started only in December 2005, has also been growing quickly and is already contributing positively to our financials. Revenue from ship building jumped about five-fold to S\$19.6 million in FY2007, as compared to FY2006. We constructed 20 vessels in FY2007, compared to 3 vessels in FY2006, a commendable record for a young shipyard.

## **THE WATERS AHEAD**

Looking ahead, I am confident that we will continue to grow, given our strong capabilities as an integrated shipping group and the favourable business conditions.

First, the International Maritime Organisation's mandatory phasing out of single-hull tankers for double-hull tankers by 2010 is likely to drive strong global demand for our ship building and conversion services. At present, there are still many tankers and CPO barges that have yet to be phased out or converted.

The global increase in offshore oil and gas activities also augurs well for our shipyard business, in the light of increasing demand for the fabrication of massive steel platforms for offshore jack-up oil rigs, in support of marine exploration and production activities.

As Singapore goes ahead in full force with the development of its integrated resorts, the resultant activity and buzz is resulting in many positive spin-offs, including the significant boost to the construction and real estate sectors. This is in turn benefiting our ship chartering business as we

transport primarily granite mix aggregates (including granite fines) to Singapore. To meet the increasing demand for construction materials, Singapore is looking further in the region for alternative sources for sand and granite mix aggregates, which will drive demand for our longer-haul chartering services.

To leverage on all the opportunities, we are in the midst of expanding and upgrading our shipyard to equip ourselves with ship repair, maintenance and conversion capabilities. Upon the completion of our shipyard expansion plans, we are likely to be one of the larger and better equipped shipyards in Batam. With stronger shipyard capabilities, we also have plans to build bigger and more sophisticated vessels, and undertake the fabrication of massive steel work modules for jack-up oil rigs. At the same time, we will continue to expand our fleet to cater to the rising demand of ship chartering services.

In light of these positive factors, I am optimistic that FY2008 will be another good year for Marco Polo Marine.

## **NEW RESPONSIBILITIES**

Whilst we focus our energies on growing the business, we also recognise that there are other important commitments we have to uphold as we move into public ownership. I would like to assure investors that Marco Polo Marine is highly committed to enhancing shareholder value, and resolute about maintaining high standards of corporate governance and transparency. Over the next financial year, we will be giving you regular updates on key developments and our plans to realise the Group's growth vision.

On behalf of the Board of Directors, I would like to thank all our shareholders, customers and business partners for their continuous support, and of course, the committed management team and staff members of Marco Polo Marine - without whom our listing and growth thus far cannot be possible. As the captain of this ship, I will do my best to steer our vessel towards the waters of opportunities and ride the rising tides. I urge shareholders to stay on board with us on this exhilarating journey together!

Lee Wan Tang  
Executive Chairman  
Marco Polo Marine Ltd.







## OPERATIONS REVIEW BY CEO

Dear Shareholders,

Due to strong demand for our ship chartering and shipyard services and higher contract values, we turned in a sterling performance in both our top and bottom lines in the financial year ended 30 September 2007 ("FY2007").

Here is our report card for FY2007:

### REVENUE

Overall revenue surged 133.7% to S\$37.1 million in FY2007, from S\$15.9 million in the financial year ended 30 September 2006 ("FY2006").

Revenue from our ship building operations increased by nearly five-fold from about S\$4.0 million in FY2006 to S\$19.6 million in FY2007, as more vessels were built in FY2007. In FY2007, there were 32 vessels under construction, of which 11 were delivered to third-party customers. In FY2006, there were 15 vessels under construction, of which two were delivered to third-party customers.

Due to the higher number of vessels being built and the inherent higher contract values for ship building relative to ship chartering, our shipyard business contributed about 53.0% to our total revenue in FY2007.

Revenue from our ship chartering operations grew 46.6% to S\$17.4 million in FY2007, accounting for 47.0% of overall revenue in FY2007. This was brought about by the expansion of our fleet size from 18 vessels at the beginning of FY2006 to 25 vessels at the end of FY2007.

Geographically, 74.9% of Group revenue was attributable to customers in Indonesia, with the remaining 25.1% attributable to customers from Singapore, Switzerland and Other geographical markets, which include mainly Hong Kong, Malaysia and Dubai.

### PROFITABILITY

Among our two business segments, ship chartering remains the key profit contributor, while ship building – which commenced operations only in December 2005 – registered remarkable profit growth year-on-year.

Total gross profit soared 120.2% to S\$9.9 million in FY2007, up from S\$4.5 million in FY2006. Overall gross profit margin remained stable at about 27%.

Other operating income for FY2007 comprised mainly the gain on disposal of vessels, as a result of our policy to maintain a young fleet of vessels to ensure stronger performance and low maintenance costs.

The increase in administrative expenses of about S\$0.9 million in FY2007 is attributable mainly to the increase in manpower costs arising from an expansion of our staff strength and the beefing up of our management team, in order to meet the scheduled expansion of our shipyard.

The increase in other operating expenses of about S\$0.9 million in FY2007 was mainly due to higher depreciation cost for property, plant and equipment, and foreign exchange loss (including unrealised translation loss) due to the weakening of USD and IDR against Singapore dollars – our reporting currency.

Our finance costs increased by about S\$0.9 million in FY2007 mainly as a result of increased bank borrowings to partially fund the expansion of both our ship chartering and shipyard operations.

We incurred income tax expense of S\$220,000 in FY2007, which is a lower effective corporate tax rate relative to the corporate tax rate of 18% in Singapore. This is because a large proportion of our shipping profits are tax exempted pursuant to Section 13A of the Singapore Income Tax Act.

As a result, we recorded a sterling increase of 55.7% in profit after tax to S\$8.4 million in FY2007, up from S\$5.4 million in FY2006.

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## FINANCIAL POSITION

The increase in our Group's property, plant and equipment for the financial years under review was attributable mainly to the expansion of our fleet size and our shipyard facilities at Batam. This includes the construction of a drydock and facilities such as workshops and warehouses, to undertake ship repair, maintenance and conversion works.

Our trade receivables and trade payables increased in tandem with the increased scale of operations. Other receivables comprised mainly down payments made for the purchase of vessels as well as machinery and engines needed for the building of vessels. The increase in long-term borrowings constitutes primarily bank borrowings to fund partially the expansion of our fleet size and the shipyard expansion.

As at the end of FY2007, we funded our fleet expansion and shipyard development primarily through cashflow generated from operations, external borrowings and proceeds from the disposal of vessels.

Our net current liabilities position improved significantly from S\$19.7 million as at 30 September 2006 to about S\$2.1 million as at 30 September 2007. If the net IPO proceeds of about S\$13.2 million received in November 2007 were taken into consideration, we would have reported a net current assets position of about S\$11.1 million.

## OUR FUTURE PLANS

Having registered a strong performance in FY2007, we are not resting on our laurels. In the next financial year, we will continue to grow our business and work hard at securing new contracts and raising profitability.

Our shipyard business is poised to accelerate its growth, as we broaden and enhance our range of services. At the moment, we are in the midst of expanding and upgrading our Batam shipyard so that we can move into higher-margin ship repair, maintenance and conversion services. We are currently constructing two drydocks, a jetty and related facilities to equip our shipyard with ship repair, maintenance and conversion capabilities. Construction of one drydock is expected to be substantially completed by the end of 2007 and construction of the second drydock is expected to commence by the beginning of 2008.

Besides serving new and existing customers, our new facilities will also enable us to support our ship chartering business. This will undoubtedly strengthen our position as a truly integrated shipping group.

When our shipyard is fully completed, I'm delighted to declare that we will be one of the larger and better equipped yards in Batam, in terms of ground space and facilities. We will be in a stronger position to capitalise on the heavy volume of mercantile traffic passing through Singapore - a regional shipping and transshipment hub - by providing marine logistics support.

With stronger ship building capabilities, we have plans to move up the value chain by building more sophisticated vessels, such as Anchor Handling, Towing and Supply (AHTS) vessels. We are also equipping ourselves to handle higher value vessels, such as Platform Supply Vessels (PSV) and accommodation barges.

In addition, we will embark on the fabrication of massive steel work modules for jack-up oil rigs. This will allow us to ride on the rising demand in the offshore oil and gas, and marine logistics industries.

At the same time, we will continue to grow our ship chartering business by actively pursuing ship chartering and transshipment contracts with existing and new customers within the Southeast Asian region. With Indonesian's coal production and export industry driving strong demand for ship chartering and transshipment services, we intend to expand our fleet of vessels to serve customers in the coal industries and procure more long-term transshipment contracts to expand our revenue base.

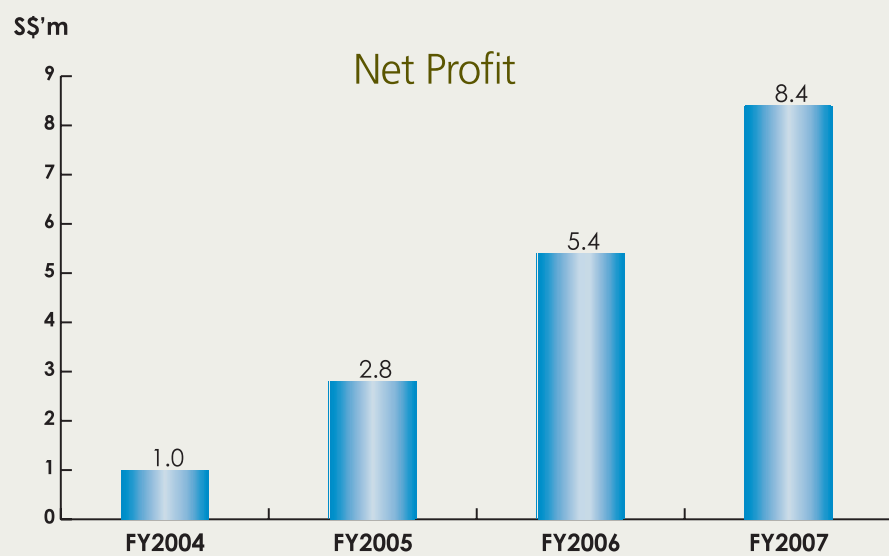
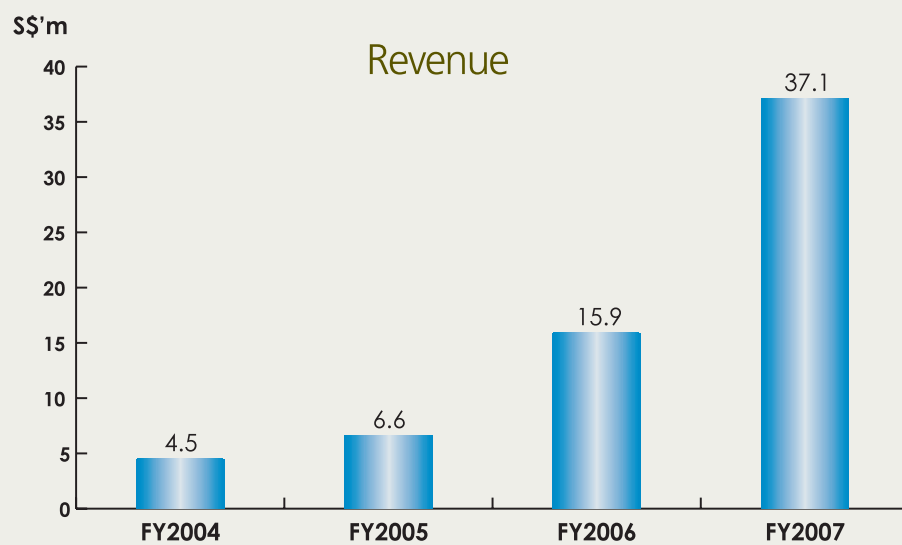
Last but not least, thank you for the strong support and show of confidence in us. FY2007 has been a memorable and rewarding year. As we work hard on executing our growth strategies and plans, the months ahead, too, will be eventful. I look forward to updating shareholders on our corporate developments and achievements over the next financial year!

Sean Lee Yun Feng  
Chief Executive Officer  
Marco Polo Marine Ltd.

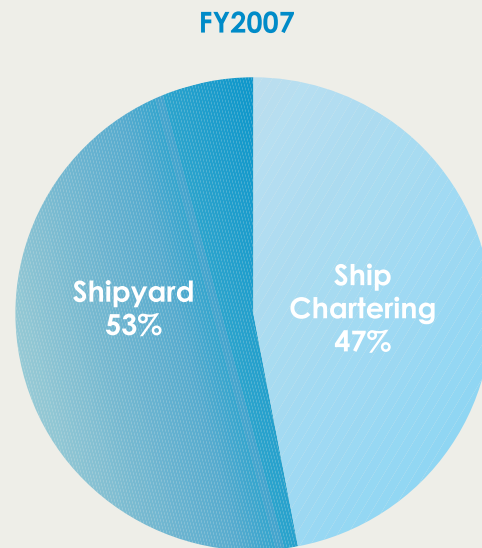
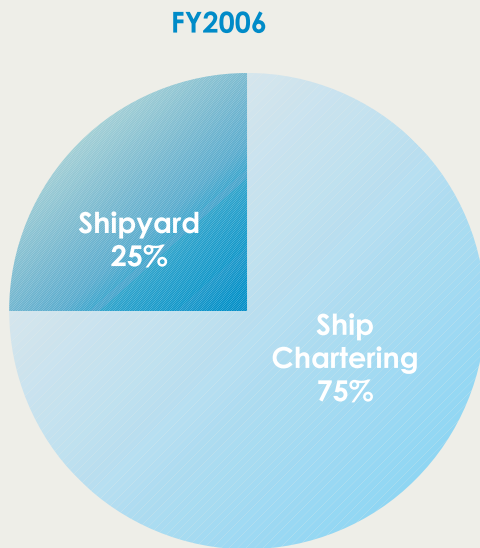




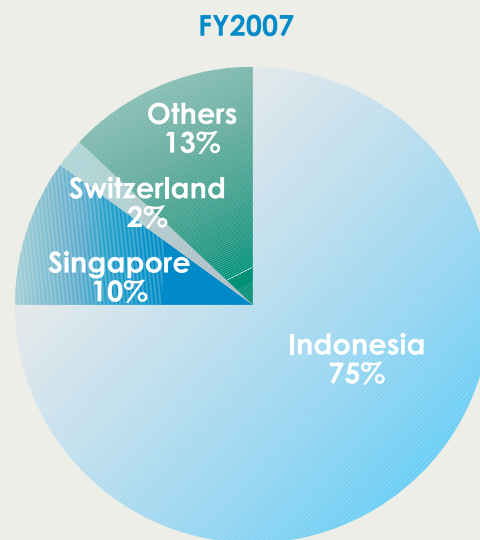
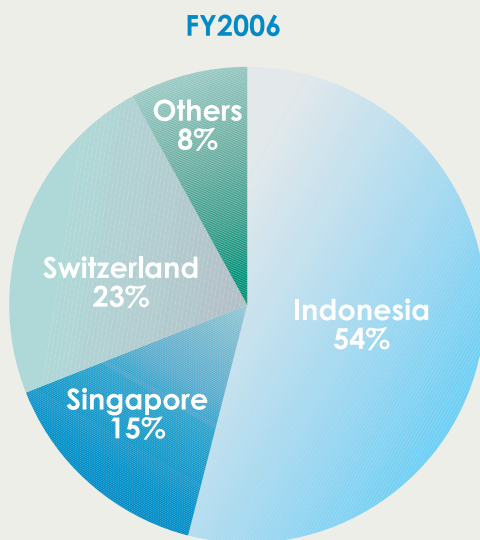
## KEY FINANCIALS



## Revenue by Business Segments



## Revenue by Geographical Regions



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## BOARD OF DIRECTORS

**LEE WAN TANG**  
*Executive Chairman*

Mr Lee Wan Tang is the Executive Chairman of our Group. He is responsible for the strategic positioning and business expansion of our Group. Mr Lee has been instrumental in the development of our ship chartering operations and the initial planning and setting up of MP Shipyard. In 2005, having recognised the region's demand for ship building and ship repair and maintenance services, he established our shipyard business. Prior to his involvement with our Group, from 1979 to 1990, he was principally involved in the formulation of the business directions and strategies of other companies controlled by the Lee Family.

**SEAN LEE YUN FENG**  
*Chief Executive Officer*

Mr Sean Lee Yun Feng is our Group CEO. He is responsible for the overall management and day-to-day operations of our Group as well as the formulation of the business directions, strategies and policies of our Group. Mr Sean Lee is instrumental in initiating and penetrating new markets for both our shipping and shipyard operations. On the operational front, he introduced a slew of strategic operational measures which greatly improved the efficiency of our fleet of vessels. He also spearheads our shipyard operations since it commenced operations in December 2005. Mr Sean Lee graduated with a Bachelor of Commerce degree from the Murdoch University (Western Australia) in 1999.

**LIELY LEE**  
*Executive Director*

Ms Liely Lee is our Executive Director. She joined our Group as the Director (Finance) of our Group in 2006. Presently Ms Lee oversees treasury, human resource and administration matters of our Group. Prior to joining us, she was a co-owner of Gelare, a food and beverage chain in Singapore with 13 outlets where she oversaw the finance, accounting, legal, taxation and human resource matters of the Gelare chain for seven years. Ms Lee graduated with a Bachelor of Commerce degree from the Murdoch University (Western Australia) in 1995. She is currently pursuing a Masters degree (Accounting) with Curtin University (Western Australia).

**LAI QIN ZHI**  
*Non-Executive Director*

Mdm Lai Qin Zhi is our Non-Executive Director. Mdm Lai has been a director of MP Shipping since 2001, where she oversaw the financial and taxation matters of MP Shipping. Prior to her involvement with MP Shipping, she was the Finance Director of a few companies controlled by the Lee Family, a role she presently assumes.

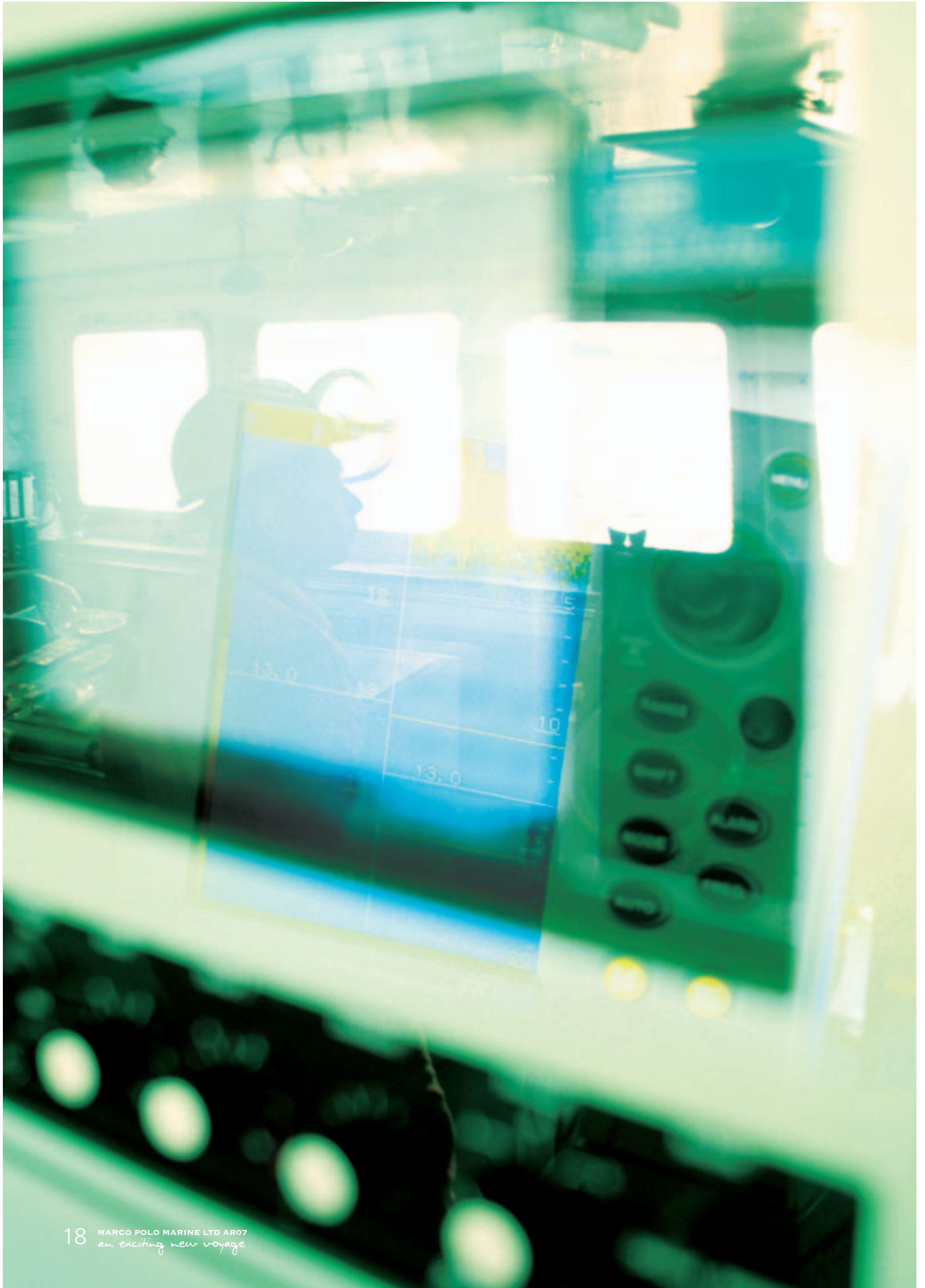
**LIM HAN BOON**  
*Lead Independent Director*

Mr Lim Han Boon is our Lead Independent Director. He is concurrently an independent director of Addvalue Technologies Ltd and Sunshine Holdings Limited. Mr Lim is presently a director of Winvest Management Pte Ltd, which is principally engaged in the provision of consultancy services. Prior to which, he held various positions with several financial institutions in the corporate banking, corporate finance and venture capital industries. Mr Lim obtained a Bachelor of Accountancy Degree from the National University of Singapore in 1987 and a Master of Business Administration (Finance) degree from the City University, U.K. in 1992. He is also a Fellow Member of the Institute of Certified Public Accountants of Singapore and a Full Member of the Singapore Institute of Directors since 2001.

**SIM SWEE YAM PETER**  
*Independent Director*

Mr Sim Swee Yam Peter is our Independent Director. Mr Sim is a practising lawyer and a director of his own law corporation, Sim & Wong LLC. He graduated from the University of Singapore (now known as the National University of Singapore) in 1980 with a degree in law and was admitted to the Singapore Bar in 1981. He has been a Commissioner for Oaths since 1990 and a Notary Public since 1996. Mr Sim is presently an independent director of British and Malayan Trustees Ltd, Lum Chang Holdings Ltd and Pacific Healthcare Holdings Ltd where he is also the Chairman of the Board. He is also a director of PowerSeraya Ltd. He was awarded the Pingkat Bakti Masyarakat in August 2000.

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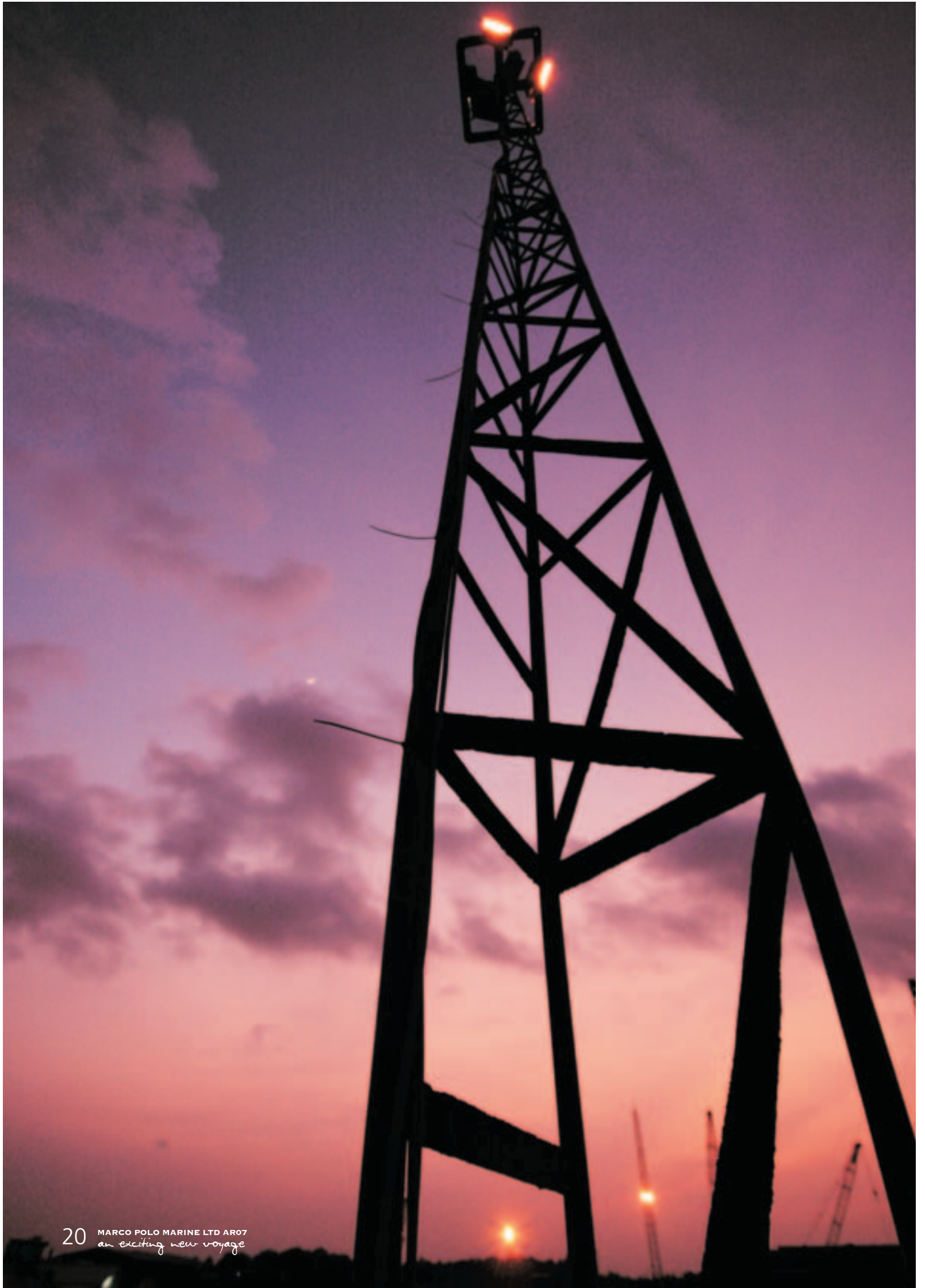
## KEY EXECUTIVE OFFICERS

**Ms CHOW CHOI FUN** is the Financial Controller of our Group. She joined our Group in April 2007. She is responsible for the accounting, financial, secretarial and tax related matters of our Group. Prior to joining us, she was the General Manager-Finance of Radiance Electronics Limited from February 2006 to March 2007 and the Corporate Finance Manager of Goldtron Ltd from July 2002 to January 2006. Ms Chow is a Chartered Accountant registered with the Malaysian Institute of Accountants and Fellow Member of the Chartered Association of Certified Accountants since 1990 and 1995 respectively.

**MR IRRYANTO** is the Director (Shipping, Marketing and Operations) of our ship chartering division as well as the Director (Shipyards Administration) of our shipyard division. He has been with our Group since 2004. He is responsible for marketing and managing the shipping operations of our Group, including overall fleet scheduling and maintenance. He has been instrumental in securing and expanding the transshipment business of our Group in Indonesia. Prior to joining our Group, Mr Iryanto held various positions in BRJ, including Director (Mining) and Director (Roads and Bridges Construction), where he was tasked in marketing the quarried products as well as in managing and overseeing the budgetary control functions from 1985 to 2004.

**MR ANDY NG** is the Director (Shipyards Operations) of our shipyard division. He has been with us since 2005. Mr Ng is responsible for our Group's shipbuilding, ship repairs and other marine engineering services, including production scheduling, facilities planning and operational matters. He is also tasked to oversee the continuous infrastructure development at the yard. Mr Ng spent the first nine years of his career spanning across Australia, Hong Kong and Singapore with Slattery Australia Pty Ltd, D.G. Jones & Partners (HK) Limited, PWD Consultants Pte Ltd, Gammon Construction Ltd, where he held the position as a Project Quantity Surveyor, before joining our Group. He graduated with a Bachelor of Construction Management Degree from the Royal Melbourne Institute of Technology, Australia in 1995.

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**MARCO POLO MARINE LTD**  
(formerly known as MARCO POLO MARINE PTE. LTD.)  
(Incorporated in Singapore)  
AND ITS SUBSIDIARIES  
Registration number: 200610073Z

## **FINANCIAL CONTENTS**

For the financial year ended 30 September 2007

Corporate Governance Statement	22
Directors' Report	30
Statement by Directors	33
Independent Auditors' Report	34
Balance Sheets	36
Consolidated Profit and Loss Statement	37
Consolidated Statement of Changes in Equity	38
Consolidated Statement of Cash Flows	39
Notes to the Consolidated Financial Statements	41
Statistics of Shareholdings	73
Notice of Annual General Meeting	75
Proxy Form	

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# CORPORATE GOVERNANCE STATEMENT

The Board of Directors of the Company (the "Board") is committed to achieving a high standard of corporate governance within the Group and to putting in place effective self-regulatory corporate practices to protect the interests of its shareholders and enhance long-term shareholder value. The Company adopts practices based on the Code of Corporate Governance 2005 (the "Code") and the Best Practice Guide issued by the Singapore Exchange Securities Trading Limited ("the "SGX-ST"). The Board is pleased to report compliance of the Company with the Code except where otherwise stated and are regularly reviewed to ensure transparency and accountability.

## Principle 1: The Board's Conduct of Its Affairs

Apart from its statutory duties and responsibilities, the Board supervises the management of the business and affairs of the Group. The Board reviews and advises on the Group's strategic plans, key operational initiatives, major funding and investment proposals, identifies principal risks of the Group's businesses and ensures the implementation of appropriate systems to manage these risks; reviews the financial performances of the Group; evaluates the performances and compensation of senior management personnel.

The Board is generally responsible for the approval of the half-yearly and yearly results announcement, annual report and accounts, major investments and fundings, material acquisitions and disposals of assets and interested person transactions of a material nature.

To facilitate effective management, certain functions have been delegated by the Board to the following Committees:

- Audit Committee
- Nominating Committee
- Remuneration Committee

These committees operate under clearly defined terms of references and operating procedures. The Chairman of the respective Committees reports the outcome of the Committee meetings to the Board.

The Board will meet regularly to oversee the business and affairs of the Group or either conduct Board Meeting by way of tele-conference and video conference which the Company's Articles of Association allow. Subsequent to the listing of the Company on the SGX-Sesdaq on 5 November 2007, the Board has met once with full attendance of the Board Members except for Ms. Liely Lee. To assist the Board in fulfilling its responsibilities, the Board will be provided with management reports containing complete, adequate and timely information and papers containing relevant background or explanatory information required to support the decision making process.

## Principle 2: Composition of Board and Guidance

The Board currently has six members, comprising three executive directors and three non-executive directors. As at the date of this report, the Board of Directors comprises the following members:

Lee Wan Tang	<i>Executive Chairman</i>
Sean Lee Yun Feng	<i>CEO</i>
Liely Lee	<i>Executive Director</i>
Lai Qin Zhi	<i>Non-Executive Director</i>
Lim Han Boon	<i>Lead Independent Director</i>
Sim Swee Yam Peter	<i>Independent Director</i>

# CORPORATE GOVERNANCE STATEMENT

## Principle 2: Composition of Board and Guidance (cont'd)

The Board is of the opinion that its current size and composition is appropriate for decision making, taking into account the scope and nature of the Group's operations. The concept of independence adopted by the Board is in accordance with the definition of an independent director in the Code.

The Board consists of high calibre members with a wealth of experience and knowledge in business. They contribute valuable direction and insight, drawing from their vast experience in matter relating to accounting, finance, legal, business and general corporate matters. The current Board composition represents a well balanced mix of expertise and experience among the directors.

## Principle 3: Chairman and Chief Executive Officer

The Chairman of the Company, Mr Lee Wan Tang is an executive director. Besides giving guidance on the corporate direction of the Group, the role of the Executive Chairman includes the scheduling and chairing of Board meetings and controlling the quality, quantity and timeliness of information supplied to the Board. Mr Sean Lee Yun Feng, the CEO, sets the business strategies and directions for the Group and manages the business operations of the Group. He is supported by Ms Liely Lee, an executive director, and other management staff.

## Nominating Committee

### Principle 4: Board Membership

### Principle 5: Board Performance

The Nominating Committee ("NC") comprises the following members, the majority of the members including the Chairman of the committee, are independent non-executive directors:

Sim Swee Yam Peter	<i>Chairman, Independent Director</i>
Lim Han Boon	<i>Lead Independent Director</i>
Lai Qin Zhi	<i>Non-Executive Director</i>

The principle functions of the NC include:

- Recommending to the Board all Board appointments and assessing the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board.
- Evaluating the independence of the directors.
- Reviewing and making recommendations to the Board on the structure, size and composition of the Board.

Board renewal must be an ongoing process to ensure good governance and to maintain relevance to the changing needs of the Group. In other words, no director stays in office for more than three years without being re-elected by shareholders.

The Board's performance is a function of the experience and expertise that each of the directors bring with them. The NC has implemented a board assessment checklist and director assessment checklist to assess and increase the overall effectiveness of the Board.

# CORPORATE GOVERNANCE STATEMENT

## Nominating Committee (cont'd)

Factors taken into consideration for the assessment of each director include attendance at meetings, adequacy of preparation, participation, industry knowledge and functional expertise. Factors for assessment of the Board as a whole include the board structure, conduct of meetings, corporate strategy, risk management and internal controls, business and financial performance, compensation, financial reporting and communication with shareholders.

Each director performs a self-assessment and the results of the assessments will be used by the NC to discuss improvements to the Board and to provide feedback to the individual directors. The NC will then prepare a consolidated Board assessment report to the Board at the Board meeting.

No NC meeting was held during the financial year under review as the Company was listed on 5 November 2007.

## Principle 6: Access to Information

Management provides Board members with quarterly management accounts and other financial statements to enable the Board to fulfill its responsibilities. Board members have full and independent access to senior management and the company secretary at all times. In addition, the Board or an individual Board member may seek independent professional advice, if necessary, at the Company's expense.

The company secretary is responsible for ensuring that Board procedures are being followed and the Company complies with the requirements of the Companies Act, and other rules and regulations, which are applicable to the Company.

## Remuneration Committee

### Principle 7: Procedures for Developing Remuneration Policies

### Principle 8: Level and Mix of Remuneration

### Principle 9: Disclosure of Remuneration

The Remuneration Committee ("RC") comprises the following members, majority of whom are independent non-executive directors:

Lim Han Boon	<i>Chairman, Lead Independent Director</i>
Sim Swee Yam Peter	<i>Independent Director</i>
Lai Qin Zhi	<i>Non-Executive Director</i>

The principle functions of the RC include:

- Recommending to the Board a framework of remuneration for the Board and the key executives of the Group, covering all aspects of remuneration such as directors' fee, salaries, allowances, bonuses, options and benefit-in-kind;
- Proposing to the Board, appropriate and meaningful measures for assessing the executive directors' performance;
- Determining the specific remuneration package for each executive director;
- Considering and recommending to the Board the disclosure of details of the Company's remuneration policy, level and mix of remuneration and procedure for setting remuneration and details of the specific remuneration packages of the directors and key executives of the Group to those required by law or by the Code.

# CORPORATE GOVERNANCE STATEMENT

## Remuneration Committee (cont'd)

In performing its function, the Committee endeavours to establish an appropriate remuneration policy to attract, retain and motivate senior executives and executive directors, while at the same time ensure that the reward in each case takes into account individual performance as well as the Group's performance.

In carrying out the above, the RC may obtain independent external legal and other professional advice as it deem necessary. The expense of such advice will be borne by the Company.

No RC meeting was held during the financial year under review as the Company was listed on 5 November 2007.

The non-executive directors receive directors' fees in accordance with their level of contributions, taking into account factors such as responsibilities, effort and time spent for serving on the Board and Board Committees. The director's fees are recommended by the Board for approval as a lump sum payment at the AGM. The Board did not recommend any directors' fees for the current financial year under review.

The Executive Chairman and the Chief Executive Officer, Mr Lee Wan Tang and Mr Sean Lee Yun Feng have entered into separate services agreements with the Company for an initial period of three years.

The following table shows a breakdown of the annual remuneration of the directors and three key executives of the Group for the financial years ended 30 September 2006 and 30 September 2007.

	FY2007	FY2006
<b>Name of Directors</b>		
Lee Wan Tang	A	A
Sean Lee Yun Feng	A	A
Lai Qin Zhi	A	A
Liely Lee	A	A
Lim Han Boon	Nil	NA
Sim Swee Yam Peter	Nil	NA
<b>Key Executives</b>		
Andy Ng	A	A
Irryanto	A	A
Chow Choi Fun	A	NA

Band A refers to remuneration of up to S\$250,000

Band B refers to remuneration from S\$250,001 to S\$500,000

Band C refers to remuneration S\$500,000 and above

There were no employee of the Group who are immediate family members of a director whose remuneration exceeds S\$150,000 during the financial year ended 30 September 2007.

# CORPORATE GOVERNANCE STATEMENT

## Principle 10: Accountability

The Board keeps the shareholders updated on the business of the Group through releases of the Group's results, publication of the Company's Annual Report and timely release of relevant information through the SGXNET and our corporate website.

All shareholders of the Company will receive the Annual Report and the notice of AGM. The notice is also advertised in a local newspaper. The Company encourages shareholders' participation at AGMs, and all shareholders are given the opportunity to voice their views and to direct queries regarding the Group to the directors, including the chairperson of each of the Board Committees. The external auditors are also present to assist the directors in addressing any relevant queries from the shareholders.

## Principle 11: Audit Committee

## Principle 12: Internal Controls

## Principle 13: Internal Audit

The Audit Committee ("AC") comprises the following members, all of whom are non-executive directors with the majority being independent directors:

Lim Han Boon	<i>Chairman, Lead Independent Director</i>
Sim Swee Yam Peter	<i>Independent Director</i>
Lai Qin Zhi	<i>Non-Executive Director</i>

The AC reviews with the external auditors, Horwath First Trust, the findings on the audit of the financial statement. It also reviews the effectiveness of the Group's internal controls, including financial, operational and compliance controls and risk management. It undertakes the following principal functions:

- Review with the external auditors the audit plan, their evaluation of the system of internal controls, their audit report, their management letter and our management's response;
- Review the financial statements before submission to our Board for approval, focusing, in particular, on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with any stock exchange and statutory/regulatory requirements;
- Review the internal control procedures and the assistance given by our management to the auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of our management where necessary);
- Review and discuss with the external auditors any suspected fraud and irregularity, or suspected infringement of any relevant laws, rules and regulations, which has or is likely to have a material impact on our Group's operating results or financial position, and our management's response;
- Consider the appointment and re-appointment of the external auditors and matters relating to the resignation or dismissal of the external auditors;
- Review the adequacy of the Group's internal financial controls, operational and compliance controls and risk management policies and systems;
- Review transactions falling within the scope of Chapter 9 and Chapter 10 of the Listing Manual; and
- Review the Group's foreign exchange exposure and the procedures to manage its foreign currency risks.

## CORPORATE GOVERNANCE STATEMENT

The AC shall also undertake:

- Such other reviews and projects as may be requested by our Board and report to our Board its findings from time to time on matters arising and requiring the attention of our Audit Committee; and
- Such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time.

To effectively discharge its responsibility, the AC has full access to, and the co-operation of, the management and has full discretion to invite any directors and executive officers to attend its meetings. Full resources are made available to the AC to enable it to discharge its function properly.

The AC has reviewed with management and the assistance of the external auditors, the major business risks and the effectiveness of the Group's internal controls, including financial, operational and compliance controls.

With the assistance of the external auditors, our management has identified the main business processes and the associated financial and operational risks, and developed a set of minimum acceptable controls to address the key risks. Based on the review by the AC, the Board is satisfied that the internal controls and risks management process of the Group are adequate to safeguard shareholders' interest and the Company's assets.

The Group intends to engage a party to perform the internal audit function in order to satisfy and comply with the requirements of best practices set out in the Singapore Code of Corporate Governance 2005.

As at the date of this Annual Report, the AC has recommended a Whistle Blowing Policy ("the policy") for the Group, which provides a channel for employees and other parties to report in confidence, without fear of reprisals, concerns about possible improprieties in financial reporting or other matters. The Policy is to assist the Audit Committee in managing allegations of fraud or other misconduct; disciplinary and civil actions that are initiated following the completion of the investigations are appropriate and fair; and actions are taken to correct the weakness in the existing system of internal processes which allowed the perpetration of the fraud and/or misconduct and to prevent recurrence.

The Board affirms its overall responsibility for the Group's systems of internal controls and risk management, and for reviewing the adequacy and integrity of those systems on an annual basis. It should be noted, however, that such systems are designed to manage rather than to eliminate the risk of failure to achieve business objective. In addition, it should be noted that any system could provide only reasonable, and not absolute assurance against material misstatement of loss (including the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risk).

Subsequent to the listing of the the Company on the SGX-Sesdaq on 5 November 2007, the AC has met once with full attendance of the Committee Members. As at the date of this Annual Report, the AC has met with the external auditors once to review any area of audit concern. Ad-hoc AC meetings may be carried out from time to time, as circumstances required.

## CORPORATE GOVERNANCE STATEMENT

### Principle 14: Communication with Shareholders

### Principle 15: Greater Shareholder Participation

The Board endeavours to maintain regular, timely and effective communication with shareholders and investors. Half-yearly and full year results, including disclosure of information on material matters required by the Listing Manual, will be promptly disseminated to shareholders through announcements made via the SGXNET followed by a news release, which will also be available on the Company's website.

The Board welcomes the view of shareholders on matters affecting the Group, whether at shareholders' meeting or on an ad-hoc basis. Shareholders are informed of meetings through notices published in the newspapers and reports or circulars sent to all shareholders.

At general meetings, shareholders are given the opportunity to pose any questions to the directors or management relating to the Group's business or performances.

### Interested Person Transactions

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the AC and that the transactions are carried out on an arm's length basis. Save for the following interested person transactions as disclosed below, there were no interested person transactions (of more than S\$100,000) entered into by the Company or any of its subsidiaries for the financial year under review:

Name of Interested Persons	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under IPT General Mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under the IPT General Mandate (excluding transactions less than S\$100,000) pursuant to Rule 920
	S\$'000	S\$'000
Purchase of used equipment and machinery from PT. Bina Riau Jaya for shipyard use	130	–
Letter of Credit facilities provided by Mount Kawi Pte Ltd on behalf of subsidiary, Bina Marine Pte Ltd for purchases of materials	3,845	–
Sale of vessels by subsidiary, Marco Polo Shipping Co Pte Ltd to PT. Pelayaran Nasional Bina Buana Raya pursuant to a Sales and Leaseback Agreement	–	1,500
Provision of consultancy services to the Group by Winvest Management Pte Ltd	180	–

# CORPORATE GOVERNANCE STATEMENT

## Material Contracts

Save for the contracts which were disclosed in the Prospectus of the Company dated 26 October 2007, there were no material contracts of the Company or its subsidiaries involving the interest of any director or controlling shareholder subsisting as at the financial year under review.

## Securities Transactions

The Company has adopted internal regulations with respect to dealings in securities by directors and officers of the Group that are modeled on the Best Practice Guide of SGX-ST. The directors, management and officers of the Group who have access to price-sensitive, financial or confidential information are not permitted to deal in the Company's shares during the periods commencing two weeks before announcement of the Group's half-yearly results and one month before the announcement of the Group's yearly results and ending on the date of announcement of such result, or when they are in possession of unpublished price-sensitive information of the Group. In addition, the officers of the Company are advised not to deal with the Company's securities for a short term considerations and are expected to observe the insider trading laws at all times even when dealing in securities within the permitted trading periods.

## Risk Management Policies and Processes

The Company does not have a Risk Management Committee. The executive directors and senior management assumes the responsibilities of the risk management function. They regularly assesses and reviews the Group's business and operational environment in order to identify areas of significant business and financial risks, such as credit risks, foreign exchange risks, liquidity risks and interest rates risks, as well as appropriate measures to control and mitigate these risks.

## Use of Proceeds

Pursuant to its initial public offering ("IPO"), the Company issued 53,550,000 new ordinary shares of S\$0.28 each on 5 November 2007. Of the total gross proceeds of S\$14.994 million raised from the IPO, as at the date of this Annual Report, a total of S\$7.039 million were utilized for the following purposes:

	<b>S\$' million</b>
1. Financing the purchase of new vessels	1.3
2. Financing the shipyard development	0.4
3. Listing expense	1.7
4. General working capital	3.6
<b>Total amount disbursed as at the date of this Annual Report</b>	<b>7.0</b>

## DIRECTORS' REPORT

### For the financial year ended 30 September 2007

(Amounts in Singapore dollars unless otherwise stated)

The directors are pleased to present their report to the members together with the consolidated financial statements of Marco Polo Marine Ltd. (the "Company") and its subsidiaries (collectively, the "Group") for the financial year ended 30 September 2007 and the balance sheet of the Company as at 30 September 2007.

#### Directors

The directors of the Company in office at the date of this report are as follows:

Mr Lee Wan Tang	
Mdm Lai Qin Zhi	
Mr Sean Lee Yun Feng	
Ms Liely Lee	(appointed on 10 July 2007)
Mr Lim Han Boon	(appointed on 1 September 2007)
Mr Sim Swee Yam Peter	(appointed on 1 September 2007)

#### Arrangements to enable directors to acquire benefits by means of the acquisition of shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

#### Directors' interests in shares or debentures

The interests of the directors who held office at the end of the financial year in the share capital or debentures of the Company and related corporations, according to the register kept by the Company for the purpose of Section 164 of the Singapore Companies Act, were as follows:

Company	Shareholdings registered in name of director		Shareholdings in which the director is deemed to have an interest	
	At 1 October 2006	At 30 September 2007	At 1 October 2006	At 30 September 2007
<b>Ordinary shares</b>				
Lee Wan Tang	–	–	1,320,006	213,557,374
Lim Han Boon	–	514,101	–	–
<b>Immediate Holding Company - Nautical International Holdings Ltd</b>				
<b>Ordinary shares</b>				
Lee Wan Tang	660,003	660,003	–	–
Lai Qin Zhi	158,401	158,401	–	–
Sean Lee Yun Feng	237,600	237,600	–	–
Liely Lee	132,001	132,001	–	–

## **DIRECTORS' REPORT**

**For the financial year ended 30 September 2007**  
*(Amounts in Singapore dollars unless otherwise stated)*

### **Directors' interests in shares or debentures** (cont'd)

There was no change in any of the above-mentioned interest between the end of the financial year and 21 October 2007.

By virtue of section 7 of the Companies Act, the directors are deemed to be interested in the entire capital of the wholly-owned subsidiaries of the Company at the beginning and at the end of the financial year.

Except as disclosed above, no other director had an interest in any shares or debentures of the Company or its related corporations at the beginning or the end of the financial year.

### **Directors' contractual benefits**

Since the end of the previous financial period, no director has received or become entitled to receive a benefit by reason of a contract made by the Company, or a related corporation with the director or with a firm of which the director is a member, or with a Company in which the director has a substantial financial interest except as disclosed in the accompanying consolidated financial statements.

### **Share options**

During the financial year, no options to take up unissued shares of the Company or any subsidiary were granted and no shares were issued by virtue of the exercise of options to take up unissued shares of the Company or any subsidiary. There were no unissued shares of the Company or any subsidiary under option at the end of the financial year.

### **Audit Committee**

The members of the Audit Committee at the date of this report are as follows:

Mr Lim Han Boon	<i>(Lead Independent Director)</i>
Mr Sim Swee Yam Peter	<i>(Independent Director)</i>
Mdm Lai Qin Zhi	<i>(Non-executive Director)</i>

The Audit Committee performs the functions specified by Section 201B of the Companies Act, the Listing Manual of the Singapore Exchange Securities Trading Limited and the Code of Corporate Governance.

The nature and extent of the functions performed by the AC are detailed in the Corporate Governance Report set out in the Annual Report of the Company.

The AC has recommended to the Board of Director that the auditors, Messrs Horwath First Trust, be nominated for re-appointment as external auditors at the forthcoming Annual General Meeting of the Company.

## **DIRECTORS' REPORT**

**For the financial year ended 30 September 2007**

*(Amounts in Singapore dollars unless otherwise stated)*

### **Auditors**

Horwath First Trust have expressed their willingness to accept re-appointment as auditors of the Company.

### **On behalf of the Board of Directors**

**Sean Lee Yun Feng**

Director

**Liely Lee**

Director

Singapore

3 December 2007

## **STATEMENT BY DIRECTORS**

In the opinion of the directors, the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 36 to 72 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 30 September 2007 and of the results, changes in equity and cash flows of the Group for the financial year then ended, and 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 of Directors**

**Sean Lee Yun Feng**  
Director

**Liely Lee**  
Director

Singapore  
3 December 2007



**INDEPENDENT AUDITORS' REPORT TO THE  
MEMBERS OF MARCO POLO MARINE LTD.  
(FORMERLY KNOWN AS MARCO POLO MARINE  
PTE. LTD.)**

**Horwath First Trust**

Certified Public Accountants  
*(formerly known as First Trust Partnership)*

7 Temasek Boulevard  
#11-01 Suntec Tower One  
Singapore 038987

Tel: (65) 6221 0338  
Fax: (65) 6221 1080

We have audited the accompanying consolidated financial statements of Marco Polo Marine Ltd. (formerly known as Marco Polo Marine Pte. Ltd.) (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 36 to 72, which comprises the balance sheets of the Company and of the Group as at 30 September 2007, and the consolidated statement of profit and loss, consolidated statement of changes in equity and consolidated statement of cash flow of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

*Directors' responsibility for the financial statements*

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, ("the Act") and Singapore Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatements.

An audit includes performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**INDEPENDENT AUDITORS' REPORT TO THE  
MEMBERS OF MARCO POLO MARINE LTD.  
(FORMERLY KNOWN AS MARCO POLO MARINE  
PTE. LTD.) (cont'd)**

*Opinion*

In our opinion:

- (a) the balance sheet of the Company and the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2007 and of the results, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

**Horwath First Trust**  
Certified Public Accountants

Singapore  
3 December 2007

## BALANCE SHEETS

As at 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

	Note	Group		Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Share capital and reserves attributable to the Company's equity holders</b>					
Share capital	4	18,158	1,320	18,158	1,320
Translation reserves		11	22	–	–
Accumulated profits / (losses)		7,259	9,520	313	(13)
<b>TOTAL EQUITY</b>		<b>25,428</b>	<b>10,862</b>	<b>18,471</b>	<b>1,307</b>
<b>Non-current assets</b>					
Property, plant and equipment	5	45,053	37,410	–	–
Investment in subsidiaries	6	–	–	4,320	1,320
<b>Current assets</b>					
Inventories	7	1,854	2,102	–	–
Trade receivables	8	2,221	894	–	–
Due from customers on construction contracts	9	7,330	833	–	–
Due from related parties (trade)		2,120	154	–	–
Other receivables	10	4,209	343	904	151
Due from holding company (non-trade)	11	–	#	–	#
Due from subsidiaries (non-trade)	11	–	–	13,300	–
Cash and bank balances	12	1,025	438	66	–
		18,759	4,764	14,270	151
<b>TOTAL ASSETS</b>		<b>63,812</b>	<b>42,174</b>	<b>18,590</b>	<b>1,471</b>
<b>Current liabilities</b>					
Trade payables	13	6,833	5,643	–	–
Due to related parties (trade)		4,515	791	–	–
Other payables	14	3,354	3,134	25	10
Due to a director (non-trade)	11	–	6,179	–	–
Due to subsidiary (non-trade)	11	–	–	94	154
Due to related parties (non-trade)	11	–	464	–	–
Interest-bearing loans (secured)	15	5,902	8,265	–	–
Provision for income tax		219	–	–	–
		20,823	24,476	119	164
<b>Non-current liabilities</b>					
Interest-bearing loans (secured)	15	17,561	6,836	–	–
<b>TOTAL LIABILITIES</b>		<b>38,384</b>	<b>31,312</b>	<b>119</b>	<b>164</b>
<b>NET ASSETS</b>		<b>25,428</b>	<b>10,862</b>	<b>18,471</b>	<b>1,307</b>

# Denotes amounts less than \$500

The accompanying notes are an integral part of the financial statements.

## CONSOLIDATED PROFIT AND LOSS STATEMENT

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

		Group	
	Note	2007 \$'000	2006 \$'000
<b>Revenue</b>	16	37,121	15,887
Cost of sales		(27,222)	(11,391)
<b>Gross profit</b>		9,899	4,496
Other operating income	17	3,352	663
Negative goodwill arising on acquisition		–	2,159
Administrative expenses		(1,701)	(807)
Other operating expenses		(1,677)	(781)
Finance costs	19	(1,256)	(337)
<b>Profit before tax</b>	20	8,617	5,393
Income tax	21	(220)	#
<b>Profit attributable to shareholders</b>		8,397	5,393
<b>Earnings per share (cents)</b>	22		
Basic <sup>(1)</sup>		3.9	2.5
Diluted <sup>(2)</sup>		3.1	2.0

(1) Basic earnings per share is computed based on the profit attributable to shareholders and pre-invitation share capital of 214,200,000 shares.

(2) Diluted earnings per share is computed based on the profit attributable to shareholders and post-invitation share capital of 267,750,000 shares.

# Denotes amounts less than \$500

The accompanying notes are an integral part of the financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

	Share capital \$'000	Translation reserve \$'000	Accumulated profits \$'000	Total \$'000
<b>Balance as at 1 October 2005</b>	865	1	4,127	4,993
Issue of ordinary shares by the Company	1,320	–	–	1,320
Effects of reorganisation under common control	(865)	–	–	(865)
Net exchange differences on translation of financial statements of foreign subsidiaries	–	21	–	21
Net gain recognised directly into equity	–	21	–	21
Profit for the year	–	–	5,393	5,393
Total recognised gains	–	–	5,393	5,393
<b>Balance as at 30 September 2006</b>	1,320	22	9,520	10,862
<b>Balance as at 1 October 2006</b>	1,320	22	9,520	10,862
Issue of ordinary shares by the Company	6,180	–	–	6,180
Bonus issue	10,658	–	(10,658)	–
Net exchange differences on translation of financial statements of foreign subsidiaries	–	(11)	–	(11)
Net expense recognised directly into equity	–	(11)	–	(11)
Profit for the year	–	–	8,397	8,397
Total recognised gains	–	–	8,397	8,397
<b>Balance as at 30 September 2007</b>	18,158	11	7,259	25,428

The accompanying notes are an integral part of the financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

	Group	
	2007 \$'000	2006 \$'000
<b>Cash flows from operating activities</b>		
<b>Profit before tax</b>	8,617	5,393
Adjustments for:		
Depreciation of property, plant and equipment	2,896	1,434
Write-off of property, plant and equipment	–	1
Interest expense	1,256	337
Interest income	(2)	(9)
Gain on disposal of property, plant and equipment	(3,024)	(627)
Negative goodwill arising on acquisition of a subsidiary	–	(2,159)
Currency realignment	428	(54)
<b>Operating profit before changes in working capital</b>	10,171	4,316
Inventories	248	(2,102)
Trade and other receivables	(6,415)	1,943
Due from customers on construction contracts	(6,497)	(833)
Trade and other payables	5,134	4,279
Cash generated from operations	2,641	7,603
Income tax paid	#	#
<b>Net cash from operating activities</b>	2,641	7,603
<b>Cash flows from investing activities</b>		
Acquisition of a subsidiary, net of cash acquired (Note A)	–	(2)
Purchase of property, plant and equipment	(16,511)	(23,358)
Proceeds from disposal of plant and equipment	8,567	1,080
Interest received	2	9
Net cash used in investing activities	(7,942)	(22,271)
<b>Cash flows from financing activities</b>		
Proceeds from issue of new shares	3,000	455
Proceeds from loans (net)	8,362	11,238
Due from holding company (non-trade)	#	#
Due from related parties (non-trade)	(464)	–
Deferred expenses	(564)	(152)
Due to related parties (non-trade)	–	385
Due to a director (non-trade)	(3,179)	3,435
Interest paid	(1,256)	(337)
<b>Net cash from financing activities</b>	5,899	15,024

# Denotes amounts less than \$500

The accompanying notes are an integral part of the financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

	Group	
	2007 \$'000	2006 \$'000
Net increase in cash and cash equivalents	598	356
Cash and cash equivalents at beginning of year	438	61
Effect of exchange rate changes on cash and cash equivalents	(11)	21
Cash and cash equivalents at end of year	1,025	438

### Note A

The cash flow effect arising from the acquisition of a subsidiary, PT Rio Mahkota Nusantara, by PT. Marcopolo Shipyard is as follows:

	Group	
	2007 \$'000	2006 \$'000
Property, plant and equipment	–	4,781
Cash and bank balances	–	24
Trade and other payables	–	(2,620)
Identifiable net assets	–	2,185
Negative goodwill arising on acquisition	–	(2,159)
Total purchase consideration	–	26
Less: Cash and bank balances in subsidiary acquired	–	(24)
Net cash inflow arising from acquisition of subsidiary	–	2

The accompanying notes are an integral part of the financial statements.

## **NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **For the year ended 30 September 2007**

*(Amounts in thousands of Singapore dollars unless otherwise stated)*

These notes are an integral part of and should be read in conjunction with the accompanying financial statements.

#### **1. GENERAL INFORMATION**

The Company is a public limited company incorporated and domiciled in Singapore and listed on the SGX-ST Dealing and Automated Quotation System ("SGX-SESDAQ"). The address of the Company's registered office is at 1 Sims Lane #04-11, Singapore 387355.

The Company's immediate and ultimate holding company is Nautical International Holdings Ltd, incorporated in British Virgin Islands.

On 7 September 2007, the Company was converted to a public limited company and changed its name to Marco Polo Marine Ltd. The Company registered its prospectus with the Monetary Authority of Singapore on 26 October 2007 and was admitted to the official list of the SGX-ST Dealing and Automated Quotation System ("SGX-SESDAQ") on 5 November 2007. Further details of the initial public offering exercise are set out in the prospectus of the Company date 26 October 2007.

The principal activity of the Company is that of investment holding. The principal activities of its subsidiaries are described in Note 6. The financial statements of the Company and the consolidated financial statements of the Group for the financial year ended 30 September 2007 were authorised for issue by the Board of Directors on 3 December 2007.

#### **2. RESTRUCTURING EXERCISE**

The Group carried out a restructuring exercise (the "Restructuring Exercise") in preparation of the Company's listing on the SGX-SESDAQ. The Group was formed through the Restructuring Exercise which involved a series of acquisition and rationalisation of the corporate and shareholding structure for the purposes of the invitation. Pursuant to the Restructuring Exercise, the Company became the holding Company of the Group.

The following was undertaken in the Restructuring Exercise in preparation for the listing of the Company:-

- (a) Acquisition of shares in MP Marine Pte. Ltd.

By a share swap agreement dated 28 July 2006 entered into between the Company (as the purchaser) and Mr Lee Wan Tang and Mr Sean Lee Yun Feng (as the vendors), the Company acquired an aggregate of 3 ordinary shares in the capital of MP Marine Pte. Ltd., representing the entire issued share capital of MP Marine Pte. Ltd., with all rights attaching thereto, with effect from 28 July 2006, in consideration for which the Company issued an aggregate of 3 ordinary shares in the capital of the Company to Nautical International Holdings Ltd (as nominated by Mr Lee Wan Tang and Mr Sean Lee Yun Feng).

- (b) Acquisition of shares in Bina Marine Pte. Ltd.

By a share swap agreement dated 28 July 2006 entered into between the Company (as the purchaser) and Mr Lee Wan Tang, Mdm Lai Qin Zhi and Mr Sean Lee Yun Feng (as the vendors), the Company acquired an aggregate of 320,000 ordinary shares in the capital of Bina Marine Pte. Ltd., representing the entire issued share capital of Bina Marine Pte. Ltd., with all rights attaching thereto as at 28 July 2006 in consideration for which the Company issued an aggregate of 320,000 ordinary shares to Nautical International Holdings Ltd (as nominated by Mr Lee Wan Tang, Mdm Lai Qin Zhi and Mr Sean Lee Yun Feng).

## **NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **For the year ended 30 September 2007**

*(Amounts in thousands of Singapore dollars unless otherwise stated)*

#### **2. RESTRUCTURING EXERCISE** (cont'd)

(c) Acquisition of shares in Marco Polo Shipping Co. Pte Ltd

By a share swap agreement dated 28 July 2006 entered into between the Company (as the purchaser) and Mr Lee Wan Tang, Mdm Lai Qin Zhi, Ms Liely Lee and Mr Sean Lee Yun Feng (as the vendors), the Company acquired an aggregate of 1,000,000 ordinary shares in the capital of Marco Polo Shipping Co. Pte Ltd, representing the entire issued shares of Marco Polo Shipping Co. Pte Ltd, with all rights attaching thereto as at 28 July 2006 in consideration for which the Company issued an aggregate of 1,000,000 ordinary shares to Nautical International Holdings Ltd (as nominated by Mr Lee Wan Tang, Mdm Lai Qin Zhi, Ms Liely Lee and Mr Sean Lee Yun Feng).

(d) Acquisition of shares in PT Rio Mahkota Nusantara

By a share sale and purchase agreement dated 14 August 2006 entered into between Mr Yohan Gunawan and Mr Yu Gie (as the vendors) and PT. Marcopolo Shipyard (as the purchaser), PT. Marcopolo Shipyard acquired an aggregate of 300 shares of Indonesian Rupiah (IDR)500,000 each in the capital of PT Rio Mahkota Nusantara at a consideration of IDR150,000,000, representing the entire issued shares of PT Rio Mahkota Nusantara. The purchase consideration was determined based on the net book value of PT Rio Mahkota Nusantara as at 31 July 2006 of IDR 150,000,000.

(e) Acquisition of shares in PT. Marcopolo Shipyard

On 28 September 2006, Bina Marine Pte. Ltd. was allotted 500 new shares of IDR1,000,000 each in the capital of PT. Marcopolo Shipyard, representing 50% of the issued shares of PT. Marcopolo Shipyard for a consideration of IDR500,000,000.

By a deed of share purchase dated 28 September 2006 entered into between, inter alia, Mr Lee Wan Tang and Mr Sean Lee Yun Feng (as the vendors) and Bina Marine Pte. Ltd. and MP Marine Pte. Ltd. (as the purchasers), Mr Lee Wan Tang and Mr Sean Lee Yun Feng sold to Bina Marine Pte. Ltd. and MP Marine Pte. Ltd. an aggregate of 500 shares of IDR1,000,000 each in the capital of PT. Marcopolo Shipyard, representing 100% of the issued shares of PT. Marcopolo Shipyard, for an aggregate consideration of IDR500,000,000. Of the aforementioned shares, 350 shares held by Mr Lee Wan Tang and 140 shares held by Mr Sean Lee Yun Feng were transferred to Bina Marine Pte. Ltd. while the remaining 10 shares held by Mr Sean Lee Yun Feng were transferred to MP Marine Pte. Ltd.

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of preparation**

The financial statements, which are expressed in Singapore dollars, are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below and are drawn up in accordance with the provisions of the Singapore Companies Act and the Singapore Financial Reporting Standards ("FRS").

The financial statements are presented in Singapore dollars and all values are rounded to the nearest thousands (\$'000) unless otherwise indicated.

In the current financial year, the Group has adopted all the new or revised FRS and Interpretations of FRS ("INT FRS") issued by the Council on Corporate Disclosure and Governance that are relevant to its operations and effective for annual periods beginning on or after 1 January 2006.

# NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Adoption of new FRS

The new or revised FRS and INT FRS which are relevant to the Group's operations are as follows:

FRS 1 (revised)	Presentation of Financial Statements
FRS 16 (revised)	Property, Plant and Equipment
FRS 19 (revised)	Employee Benefits
FRS 21 (revised)	The Effect of Changes in Foreign Exchange Rates
FRS 24 (revised)	Related Party Disclosures
FRS 32 (revised)	Financial Instruments: Disclosure and Presentation
FRS 37 (revised)	Provisions, Contingent Liabilities and Contingent Assets

The adoption of these new or revised FRS and INT FRS has no material effect on the financial statements.

### New accounting standards and interpretations not yet effective

The Group has not applied the following FRS and INT FRS that have been issued but not yet effective:

		<b>Effective date (Annual periods beginning on or after)</b>
FRS 1 (revised)	Presentation of Financial Statements	1 January 2007
FRS 2 (revised)	Inventories	1 January 2009
FRS 7 (revised)	Cash Flow Statements	1 January 2009
FRS 10 (revised)	Events after Balance Sheet Date	1 January 2007
FRS 12 (revised)	Income Taxes	1 January 2007
FRS 14 (revised)	Segment Reporting	1 January 2007
FRS 17 (revised)	Leases	1 January 2007
FRS 19 (revised)	Employee Benefits	1 January 2007
FRS 27 (revised)	Consolidated and Separate Financial Statements	1 January 2009
FRS 32 (revised)	Financial Instruments: Disclosure and Presentation	1 January 2007
FRS 33 (revised)	Earning per Share	1 January 2007
FRS 34 (revised)	Interim Financial Reporting	1 January 2009
FRS 36 (revised)	Impairment of Assets	1 January 2009
FRS 39 (revised)	Financial Instruments: Recognition and Measurement	1 January 2007
FRS 103 (revised)	Business Combinations	1 January 2007
FRS 107	Financial Instruments: Disclosures	1 January 2007
FRS 108	Operating Segments	1 January 2009
INT FRS 110	Interim Financial Reporting and Impairment	1 November 2006
INT FRS 111	FRS 102 – Group and Treasury Share Transactions	1 March 2007

The directors do not anticipate that the adoption of these standards and interpretations in future periods will have a material impact on the consolidated financial statements of the Group. The Group has not considered the impact of accounting standards issued after balance sheet date.

## **NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **For the year ended 30 September 2007**

*(Amounts in thousands of Singapore dollars unless otherwise stated)*

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **Basis of preparation (cont'd)**

The preparation of the consolidated financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The critical accounting estimates and assumptions used and area involving a high degree of judgements are described below.

##### **Significant accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### **Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### **(a) Depreciation of property, plant and equipment**

The cost of vessels is depreciated on a straight line basis over their useful lives. Management estimates the useful lives of these vessels to be within 8 to 15 years. These are common life expectancies applied in the shipping industry.

##### **(b) Income tax**

The Group is subject to income taxes in Singapore and Indonesia. Significant judgment is required in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Significant accounting estimates and judgments (cont'd)

##### Critical judgement made in applying accounting policies

The following are the judgements made by the management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements.

##### (a) Construction contracts and revenue recognition

The Group recognises contract revenue to the extent of contract costs incurred where it is probable those costs will be recoverable or based on the stage of completion method depending on whether the outcome of the contract can be measured reliably. The stage of completion is measured by reference to the contract costs incurred to date to the estimated total costs for the contract. Significant judgement is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and contract costs, as well as the recoverability of the contracts.

Total contract revenue also includes an estimation of the variation works and claims that are recoverable from the customers. In making the judgement, the Group has relied on past experience.

There are no other significant judgements or accounting estimates made in the preparation of the consolidated financial statements.

#### Subsidiaries and consolidated financial statements

##### (a) Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies as to obtain benefits from its activities. The Group generally has such power when it, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

##### (b) Consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

The consolidated financial statements of the Group for the financial year ended 30 September 2007 were prepared in accordance to the principles of merger accounting for the acquisition of subsidiaries. Under this method, the Company has been treated as the holding company of its subsidiaries for the financial year presented. Such manner of presentation reflects the economic substance of the combining entities throughout the relevant period, as a single economic enterprise. Under this method, the financial statement items of the combining entities for the financial years presented are included in the consolidated financial statements as if they have been combined from 1 October 2005. Accordingly, the combined results of the Group for the year ended 30 September 2006 include the results of the Company and these subsidiaries with effect from 1 October 2005 or since their respective dates of incorporation, if later.

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### Subsidiaries and consolidated financial statements (cont'd)

##### (b) Consolidated financial statements (cont'd)

Pursuant to this:

- Assets and liabilities are combined at their existing carrying amounts;
- No amount is recognised for goodwill; and
- Any difference between the amount recorded as share capital issued and the amount recorded for the share capital acquired will be adjusted against equity as restructuring reserve.

Apart from the above, the results of other subsidiaries acquired or disposed of during the periods are consolidated from or to their effective dates of acquisition or disposal, respectively. These other subsidiaries acquired are accounted for using the purchase method. Under this method, the cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised in the income account on the date of acquisition.

Consolidation of the subsidiaries in Indonesia is based on the subsidiaries financial statements prepared in accordance with the FRS.

##### Property, plant and equipment and depreciation

Property, plant and equipment, are stated at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated using the straight-line method to write-off the cost of the property, plant and equipment over their estimated useful lives. The estimated useful lives have been taken as follows:

##### Useful lives (Years)

Leasehold land	23
Freehold office building	50
Office equipment, furniture & fittings	3 - 5
Renovation	5
Vessels	8 - 15
Machinery and equipment	4 - 8
Motor vehicles	4
Leasehold improvements	over the remaining life of leasehold land

No depreciation is provided on vessels-in-construction until the vessels are completed and is ready for its intended use. Cost comprises direct cost of construction and installation during the period of construction and installation. Vessels-in-construction is transferred to the appropriate category of fixed assets when it is completed and ready for its intended use.

The useful life and depreciation method are reviewed annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. An assessment of the carrying value of property, plant and equipment is made when there are indications that the assets have been impaired or the impairment losses recognised in prior years no longer exist.

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Property, plant and equipment and depreciation (cont'd)

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in the profit and loss statement.

For acquisitions and disposals of vessels during the financial year, depreciation is charged from the month the asset is put into operational use and up to the month before disposal respectively.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

#### Impairment of assets

Impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to original terms of debts. The impairment charge is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to profit and loss statement in the period in which it arises, unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to profit and loss statement in the period in which it arises, unless the relevant asset is carried at a revalued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

#### Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from the fair value reserve within equity and recognised in the profit and loss statement. Impairment losses recognised in the profit and loss statement on equity investments are not reversed through the profit and loss statement, until the equity investments are disposed of.

## **NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **For the year ended 30 September 2007**

*(Amounts in thousands of Singapore dollars unless otherwise stated)*

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **Inventories**

Inventories comprise materials, spare parts and consumables are stated at the lower of cost, determined on the first in first out basis, and net realisable value. Net realisable value is the estimated normal selling price, less estimated costs to completion and costs to be incurred for selling and distribution.

Allowance is made for deteriorated, damaged, obsolete or slow-moving inventories.

##### **Construction contract**

Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date (percentage of completion method). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The stage of completion is measured by reference to the contract costs incurred to date to the estimated total costs for the contract. At the balance sheet, the aggregated costs incurred plus recognised profit (less recognised loss) on each contract is presented as due from customers on construction contracts.

##### **Related parties**

Parties are considered to be related party of the Group for the purpose of the consolidated financial statements if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

##### **Trade and other receivables**

Trade and other receivables including amounts due from related parties and holding company, are classified as loan and receivables under FRS 39 "Financial Instruments : Recognition and Measurement" and are recognised and carried at fair value and subsequently measured at amortised cost using the effective interest rate method less impairment losses on any uncollectible amounts.

Allowance for impairment loss is made when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified.

## **NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 30 September 2007**

*(Amounts in thousands of Singapore dollars unless otherwise stated)*

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

#### **Cash and cash equivalents**

Cash and cash equivalents are carried at fair value.

Cash and cash equivalents comprise of cash on hand and in banks. Cash and cash equivalents are short term, highly liquid investments readily convertible to known amounts of cash and subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired.

#### **Trade and other payables**

Trade and other payables and amount due to related parties and a director, are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

#### **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently accounted for at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the profit and loss statement over the period of the borrowings using the effective interest method.

#### **Borrowing costs**

Borrowing costs are expensed in the period in which they are incurred.

Borrowing costs incurred to finance the development of vessels-in-construction are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognised on a time-proportion basis in the profit and loss statement using the effective interest method.

The amount of borrowing cost capitalised on that asset is the actual borrowing costs incurred during the period less any investment income on the temporary investment of those borrowings.

#### **Provisions**

A provision is recognised when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of provision is the present value of the expenditures expected to be required to settle the obligation.

#### **Operating leases**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss statement on a straight-line basis over the lease term.

## **NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **For the year ended 30 September 2007**

*(Amounts in thousands of Singapore dollars unless otherwise stated)*

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **Employees' benefits**

###### **Retirement benefits**

The Group participates in the national schemes as defined by the laws of the countries in which it has operations.

###### **Singapore**

The Company makes contribution to the Central Provident Fund (CPF) Scheme in Singapore, a defined contribution pension schemes.

###### **Indonesia**

The subsidiaries, incorporated and operating in Indonesia, are required to provide certain retirement plan contribution to their employees under existing Indonesia regulations. Contributions are provided at rates stipulated by Indonesia regulations and are managed by government agencies, which are responsible for administering these amounts for the subsidiary's employees.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the income statement as and when they are incurred.

##### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Charter hire income is recognised on a time proportion basis.

Revenue from shipbuilding contracts is recognised using the percentage of completion method, measured by reference to the percentage of direct costs incurred to date to estimate total direct costs for the contract with due consideration made to include only those costs that reflect work performed.

When the outcome of contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

##### **Dividends**

Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

# NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Segment information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

### Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted in countries where the subsidiaries operate by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit and loss statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Functional and foreign currency

#### Functional currency and presentation currency

The Group's principal operations are conducted in Singapore and thus the financial statements are prepared in Singapore Dollars, being the measurement and presentation currency of the Group.

## **NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **For the year ended 30 September 2007**

*(Amounts in thousands of Singapore dollars unless otherwise stated)*

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **Functional and foreign currency (cont'd)**

###### **Foreign currency transactions**

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit and loss statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit and loss statement for the period except for differences arising on the retranslation of non-monetary items in respects of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

###### **Foreign currency translation**

For the purpose of presenting combined financial statements, the assets and liabilities of the group's foreign operations (including comparatives) are expressed in Singapore Dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the profit and loss statement in the period in which the foreign operation is disposed of.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 October 2005 are treated as assets and liabilities of the foreign operations and are recorded in the foreign currency of the foreign operations and translated at the closing rate at the balance sheet date.

###### **Financial Instruments**

The Group's financial assets are cash and bank balances, trade and other receivables (including amounts due from related parties). The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities comprising trade and other payables (including amounts due to related parties) and due to director are stated at their fair values. Bank loans are stated at amortised costs. Equity instruments are recorded at the fair value of the consideration received.

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 4. SHARE CAPITAL

	Company	
	2007 \$'000	2006 \$'000
Issued and fully paid		
At beginning of year / date of incorporation, 10 July 2006		
- 1,320,006 (2006:3) ordinary shares	1,320	#
Issue of ordinary shares		
- 212,879,994 (2006: 1,320,003) ordinary shares	16,838	1,320
At end of year / period		
- 214,200,000 (2006: 1,320,006) ordinary shares	18,158	1,320

# Denotes amounts less than \$500

During the financial year, the Company issued additional 212,879,994 ordinary shares for a total consideration of \$16,837,967 as follows:

- 3,000,000 ordinary shares by way of capitalisation of amount of \$3,000,000 owing by the Company to a director, Mr Lee Wan Tang.
- 22,027 ordinary shares by way of capitalisation of amount of \$180,000 owing by the Company to IPO consultant Winvest Management Pte Ltd.
- 3,000,000 ordinary shares for a cash consideration of \$3,000,000 to the holding company Nautical International Holdings Ltd.
- 10,657,967 ordinary shares by way of bonus issue by capitalising the Company's retained earnings amounting to \$10,657,967.
- 196,200,000 ordinary shares by way of share split, by sub-dividing each ordinary share in the capital of the Company subsequent to the capitalisation and bonus issue into 11.9 ordinary shares.

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 5. PROPERTY, PLANT AND EQUIPMENT

The Group	Leasehold land \$'000	Freehold office building \$'000	Office equipment furniture & fittings \$'000	Renovation \$'000	Vessels \$'000	Machinery and equipment \$'000	Leasehold improvement \$'000	Motor vehicles \$'000	Vessels-in-construction \$'000	Total \$'000
<b>Cost</b>										
Balance at 30.9.2005	-	-	1	-	13,824	18	64	40	-	13,947
Additions	1,563	1,102	72	63	10,775	2,725	366	27	6,665	23,358
Acquisition of a subsidiary	4,781	-	-	-	-	-	-	-	-	4,781
Disposals	-	-	-	-	(1,287)	(3)	-	-	-	(1,290)
Translation differences	52	-	-	-	-	1	-	2	-	55
Balance at 30.9.2006	6,396	1,102	73	63	23,312	2,741	430	69	6,665	40,851
Additions	-	-	82	-	2,781	986	4,901	147	7,614	16,511
Disposal	-	-	-	-	(8,115)	-	-	(24)	-	(8,139)
Transfer from vessels in construction	-	-	-	-	10,098	-	-	-	(10,098)	-
Translation differences	(263)	-	(1)	-	-	(171)	(27)	(4)	-	(466)
Balance at 30.9.2007	6,133	1,102	154	63	28,076	3,556	5,304	188	4,181	48,757
<b>Accumulated depreciation</b>										
Balance at 30.9.2005	-	-	-	-	2,839	2	-	2	-	2,843
Charge for the year	23	7	7	4	1,228	136	16	13	-	1,434
Disposals	-	-	-	-	(834)	(3)	-	-	-	(837)
Translation differences	-	-	-	-	-	1	-	-	-	1
Balance at 30.9.2006	23	7	7	4	3,233	136	16	15	-	3,441
Charge for the year	267	22	24	13	2,042	447	57	24	-	2,896
Disposals	-	-	-	-	(2,563)	-	-	(12)	-	(2,575)
Translation differences	(4)	-	(1)	-	-	(24)	(28)	(1)	-	(58)
Balance at 30.9.2007	286	29	30	17	2,712	559	45	26	-	3,704
<b>Net book value</b>										
As at 30.9.2007	5,847	1,073	124	46	25,364	2,997	5,259	162	4,181	45,053
As at 30.9.2006	6,373	1,095	66	59	20,079	2,605	414	54	6,665	37,410

Property, plant and equipment with net book value of \$30,556,502 (2006:\$19,269,906) are pledged as security for bank borrowings (Note 15).

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 5. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The Group's property, plant and equipment include borrowing costs incurred in connection with the vessels-in-construction.

The borrowing costs capitalised as cost of vessels-in-construction during the year ended 30 September 2007 amounted to \$101,244 (2006: \$52,881). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 8.0188% (2006: 5.8977%).

### 6. INVESTMENT IN SUBSIDIARIES

	Company	
	2007 \$'000	2006 \$'000
Unquoted equity interest, at cost	4,320	1,320

Details of the subsidiaries are as follows:

Name of Subsidiary	Principal activities	Place of incorporation/ business	Effective equity held by the Group		Cost of investment	
			2007 %	2006 %	2007 \$'000	2006 \$'000
<b>Held by the Company</b>						
Marco Polo Shipping Co. Pte Ltd #	Ship chartering	Singapore	100	100	1,000	1,000
Bina Marine Pte. Ltd. #	Provision of contract services and trading activities	Singapore	100	100	3,320	320
MP Marine Pte. Ltd. #(1)	Investment holding	Singapore	100	100	–	–
<b>Held by subsidiaries:</b>						
PT. Marcopolo Shipyard +	Shipyard, shipbuilding and ship repair	Indonesia	100	100	–	–
<b>Held by PT Marcopolo Shipyard and MP Marine Pte. Ltd.</b>						
PT Rio Mahkota Nusantara + (2)	Investment holding and property management	Indonesia	100	100	–	–

# Audited by Horwath First Trust.

+ Not required to be audited in the country of incorporation. However they were audited by Horwath First Trust for the purpose of expressing an opinion on the combined financial statements.

(1) Investment amount of less than \$500

(2) On 3 May 2007, PT Marcopolo Shipyard and MP Marine Pte. Ltd. acquired additional 3,700 shares of IDR 500,000 each of the issued share capital of PT Rio Mahkota Nusantara for a total consideration of IDR 1,850,000,000 (equivalent to \$320,513).

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

#### 6. INVESTMENT IN SUBSIDIARIES (cont'd)

In accordance with the Group's accounting policy, business combinations that involve entities under common control are accounted for under the pooling of interest method in the preparation of the combined financial statements. Under this method, the identifiable assets and liabilities were accounted for at their historical cost and the prior year comparative figure of the Group have been prepared as if the Group had existed on 1 October 2005.

#### 7. INVENTORIES

	Group	
	2007 \$'000	2006 \$'000
Materials	1,609	1,971
Spare parts and consumables	217	131
Stocks in transit	28	–
	1,854	2,102

#### 8. TRADE RECEIVABLES

	Group	
	2007 \$'000	2006 \$'000
Trade receivables	2,284	894
Less: Allowance for doubtful debts	(63)	–
	2,221	894

The carrying amount of trade receivables approximates their fair values.

Trade receivables are denominated in the following currencies:

	Group	
	2007 \$'000	2006 \$'000
Singapore Dollars	1,764	77
Indonesia Rupiah	9	–
United States Dollars	448	817
	2,221	894

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 9. DUE FROM CUSTOMERS ON CONSTRUCTION CONTRACTS

	Group	
	2007 \$'000	2006 \$'000
Project costs incurred to date	7,773	791
Recognised profits less recognised losses to date	1,313	42
	9,086	833
Less : Progress billings received and receivables	(1,756)	–
Amount due from customers for contract work	7,330	833
Represented by:		
Construction work-in-progress in excess of progress billings	7,339	833
Progress billings in excess of construction work-in-progress	(9)	–
	7,330	833

### 10. OTHER RECEIVABLES

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Prepayments	155	182	8	–
Prepayments/deposits paid for purchases of machineries and engines	2,004	–	–	–
Deferred expenses	896	151	896	151
Deposit paid for purchase of vessels	1,088	–	–	–
Staff loans	6	1	–	–
Other deposits	50	6	–	–
Other debtor	10	3	–	–
	4,209	343	904	151

Staff loans and other debtors are non-interest bearing and are repayable on demand.

The carrying amount of other receivables approximates their fair value.

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

#### 10. OTHER RECEIVABLES (cont'd)

Other receivables are denominated in the following currencies:

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Singapore Dollars	2,338	327	904	151
Indonesia Rupiah	2	16	–	–
United States Dollars	883	–	–	–
Euro Dollars	986	–	–	–
	<u>4,209</u>	<u>343</u>	<u>904</u>	<u>151</u>

#### 11. DUE FROM/(TO) HOLDING COMPANY, SUBSIDIARIES, DIRECTOR AND RELATED PARTIES (NON-TRADE)

The amounts due from/(to) holding company, subsidiaries, director and related parties are unsecured, interest-free and repayable on demand.

#### 12. CASH AND BANK BALANCES

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Singapore Dollars	938	294	66	–
Indonesia Rupiah	38	15	–	–
United States Dollars	49	129	–	–
	<u>1,025</u>	<u>438</u>	<u>66</u>	<u>–</u>

#### 13. TRADE PAYABLES

	Group	
	2007 \$'000	2006 \$'000
Trade Payables	6,225	5,643
Bills Payables (unsecured)	608	–
	<u>6,833</u>	<u>5,643</u>

Interest on bills payables was charged at the rate of 6% (2006:nil) per annum.

The carrying amount of trade payables approximates their fair value.

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 13. TRADE PAYABLES (cont'd)

Trade payables are denominated in the following currencies:

	Group	
	2007 \$'000	2006 \$'000
Singapore Dollars	6,643	5,021
Indonesia Rupiah	133	66
United States Dollars	57	354
Japanese Yen	–	202
	<u>6,833</u>	<u>5,643</u>

### 14. OTHER PAYABLES

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Advances from customers	2,198	1,138	–	–
Accrued operating expenses	375	174	25	10
Deposit received for sale of vessels	52	–	–	–
Other creditors	729	1,822	–	–
	<u>3,354</u>	<u>3,134</u>	<u>25</u>	<u>10</u>

Included in other creditors are as follows:-

- (i) Amount owing to a third party of \$696,062 (2006: \$1,531,336) on the acquisition of a subsidiary, PT Rio Mahkota Nusantara. The amount is interest free and is repayable on demand.
- (ii) Staff and subcontractors' income tax withheld amounting to IDR 202,915,580 (equivalent to \$33,091) for payment to Indonesia tax department.

The carrying amount of other payables approximates their fair value.

Other payables are denominated in the following currencies:

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Singapore Dollars	3,127	2,810	25	10
Indonesia Rupiah	108	311	–	–
Malaysian Ringgit	119	12	–	–
United States Dollars	–	1	–	–
	<u>3,354</u>	<u>3,134</u>	<u>25</u>	<u>10</u>

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 15. INTEREST-BEARING LOANS – SECURED

Bank loans	Effective interest rate	Number of instalments	Instalments commenced from	2007 \$'000	Group 2006 \$'000
<b>Fixed rate</b>					
#1	5.92%	48	January 2007	2,332	–
#2	5.35%	48	August 2005, October 2005, December 2005 and February 2006	2,850	4,122
#3	5.65%	16 (quarterly)	July 2007	4,977	–
#4	6.60%	36	May 2006	498	782
#5	7.81%	48	December 2002, May 2003 and August 2003	–	259
#6	6.58%	48	August 2003 and October 2003	–	279
#7	7.34%	48	November 2003 and March 2004	–	426
				<u>10,657</u>	<u>5,868</u>
<b>Floating rate</b>					
#8				2,054	2,687
#9				882	911
#10				864	931
#11				1,138	–
#12				2,558	–
#13				2,110	–
#14				3,200	–
#15				–	400
#16				–	800
#17				–	840
#18				–	2,664
				<u>12,806</u>	<u>9,233</u>
<b>Total Interest-bearing bank loans</b>				<u>23,463</u>	<u>15,101</u>
<b>Amount repayable:</b>					
Not later than one year				5,902	8,265
Later than one year and not later than five years				16,828	6,070
Later than five years				733	766
				<u>23,463</u>	<u>15,101</u>

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 15. INTEREST-BEARING LOANS – SECURED (cont'd)

The loans are denominated in the following currencies:

	2007 \$'000	2006 \$'000
Singapore Dollars	22,599	14,170
Indonesia Rupiah	864	931
	<u>23,463</u>	<u>15,101</u>

#### Loans #1 to #7

The loans are secured by a first mortgage over the assets and joint and several guarantees by certain directors of the Group and the following:

- (a) Loans #1, #2 and #3, assignment of rights, earnings and benefits from charter agreements; assignment of insurance policies and a corporate guarantee from a related party.
- (b) Loans #3, the Group shall maintain a minimum net worth of \$4 million and a maximum debt to equity ratio of 2.5:1.
- (c) Loans #4 and #7, assignment of insurance policies.
- (d) Loans #1 and #2, the bank has further granted an additional loan amount of \$3.315 million on 28 September 2007 to finance the purchase of another 4 new vessels. Accordingly, the Group shall maintain a revised net worth of not less than \$6 million (FY2006: \$3.6 million). Net worth is defined as the sum of paid up capital, revenue reserve and loans from directors and shareholders. The Group shall maintain a maximum loan to security ratio of 70% at all times.
- (e) Loans #5, #6 and #7 were fully repaid during the year.

#### Loans #8 and #15

The loans are secured by a first legal mortgage over the assets, joint and several guarantees by certain directors of the Group and assignment of charter hire proceeds. Interest is charged at 5.25% per annum for the first year and 0.25% per annum over the bank's prime rate thereafter.

Term loans #8 are repayable over 48 monthly instalments commencing from August and October 2006.

Term loans #15 was a short term loan repayable over 4 monthly instalments upon full drawdown. Interest was charged at 0.25% per annum over the bank's prime rate on monthly rest. This loan was fully repaid during the year.

#### Loan #9

The loan is secured by a first legal mortgage over freehold office building (Note 5) and a joint and several guarantee from certain directors of the Group. Interest is charged at a fixed rate of 4.5% per annum with monthly rest for the first year, 5% per annum with monthly rest for the second year and 1.75% per annum above prevailing enterprise base rate with monthly rest thereafter. The loan is repayable over 20 years commencing from June 2006.

In the event that the total amount outstanding under the facility exceeds 88% of the average external and internal of the market value of the freehold office building, the said bank is entitled to reduce the credit limit and require repayment of such amount and additional security to be furnished.

## **NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **For the year ended 30 September 2007**

*(Amounts in thousands of Singapore dollars unless otherwise stated)*

#### **15. INTEREST-BEARING LOANS – SECURED (cont'd)**

##### **Loan #10**

The loan denominated in Indonesian Rupiah amounted to IDR 5.3 million (S\$0.864 million), which was a revolving loan obtained for the shipyard's working capital, was converted into a term loan on 11 June 2007. Interest is charged at 1% over the Bank's Cost of Funds and payable on a quarterly basis. It is secured by a deposit provided by a director of the Group and repayable on 11 June 2009.

##### **Loan #11**

The loan is a working capital loan and interest was charged at 3% per annum above the Singapore prime lending rate calculated on a daily basis and it is repayable on demand, non revolving and subject to yearly review. The loan was converted into a term loan on 20 June 2007 and is repayable over 48 monthly instalments. Interest is charged at 3.17% per annum above the Singapore prime lending rate. The loan is secured by assets of a subsidiary and joint several guarantee by certain directors of the Group.

##### **Loans #12**

The Group was granted loans amounting to \$4,896,512 from bank to finance the purchase of six vessels of which \$2,628,000 were drawdown. Interest charged is at 1.375% per annum above the bank's prime rate on monthly rest, is repayable over 48 monthly instalments and is secured by legal mortgage over the vessels, assignment of insurance policies and charter earnings, and joint and several personal guarantee of certain directors of the Group.

##### **Loan #13**

The loan is obtained for the shipyard's working capital. Interest is charged at 6.5% per annum subject to monthly revised interest rate, is repayable on 28 December 2009 and secured by the assets of a subsidiary, all assets (current and future), assets of certain directors of the Group and related parties, guarantees of certain directors of the Group and related parties, and assignment of insurance policies in respect of the above assets secured.

##### **Loan #14**

The loan is obtained for the shipyard's working capital. Interest is charged at 7% per annum subject to monthly revised interest rate and the loan is repayable over 20 quarterly instalments as follow:

	<b>\$</b>
1st to 4th quarter	100,000 of each quarter
5th to 8th quarter	150,000 of each quarter
9th to 12th quarter	175,000 of each quarter
13th to 20th quarter	225,000 of each quarter

The loan is secured by the assets of a subsidiary, all assets (current and future), assets of certain directors of the Group and related parties, guarantees of certain directors of the Group and related parties, and assignment of insurance policies in respect of the above assets secured.

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 15. INTEREST-BEARING LOANS – SECURED (cont'd)

#### Loans #16

This term loan was converted during the financial year from a non-revolving loan which bore interest rate at 3% per annum above the financial institution's prevailing prime lending rate and calculated on daily basis to a term loan repayable over 24 monthly instalments commencing from December 2006. It was secured by a second mortgage over the two vessels under loans #5. Interest was charged at an effective rate of 8.07% per annum and was calculated on a flat annual rate of 3.95%. This loan was fully repaid upon the disposal of the charged vessels during the year.

#### Loan #17

The loan was secured by a first legal mortgage over the assets and joint and several guarantees from certain directors of the Group. The loan was repayable on demand and non-revolving. Interest was charged at 3% per annum above the financial institution's prevailing prime lending rate and subjected to a yearly review. This loan was fully settled during the year.

#### Loan #18

The loan ("Construction loan") was to finance the construction of vessels to be built by a related company. It is secured by the following:

- (a) security charge over all vessel materials and work in progress;
- (b) assignment of the Construction Agreement between the Company and Shipbuilder;
- (c) assignment of all insurances;
- (d) assignment of charter earnings for charter contracts greater than twelve (12) months;
- (e) joint and several guarantee by certain directors; and
- (f) corporate guarantee by a related party.

Interest was charge at 2.3% per annum above One Month Singapore Offer Rate and accrued interest is payable on monthly basis. The loan was converted to term loan #3 on 21 March 2007.

All loans granted to the Group by the directors, shareholders, holding companies, related parties shall be subordinated under the terms of loans #3, #5, #7, #11, #12, #16 and #18.

The carrying amounts of current borrowings approximate their fair value. The fair values of non-current portions of bank borrowings at fixed rates until the maturity of the instrument are as follows:

	Carrying amount		Fair value	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Non-current portion of bank borrowings at fixed rates	6,860	3,424	6,271	3,273

The fair value of bank term loans have been determined using discounted estimated cash flows. The discount rates are the current market incremental lending rates for similar types of lending, borrowing and leasing arrangements.

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 16. REVENUE

	Group	
	2007 \$'000	2006 \$'000
Revenue comprises the following:		
Ship chartering	17,433	11,895
Shipyard	19,688	3,992
	<u>37,121</u>	<u>15,887</u>

### 17. OTHER OPERATING INCOME

	Group	
	2007 \$'000	2006 \$'000
Gain on disposal of plant and equipment	3,024	627
Net gain in foreign exchange	–	19
Bank interest income	2	9
Sundry income	276	8
Brokering income	50	–
	<u>3,352</u>	<u>663</u>

### 18. PERSONNEL EXPENSES

	Group	
	2007 \$'000	2006 \$'000
Wages and salaries	986	605
Contributions to defined contribution retirement plan	85	37
Director's fee		
- director of the subsidiary	–	12
Directors' remuneration		
- directors' of the Company	510	347
- directors' of the subsidiaries	132	78
Other staff costs	19	3
	<u>1,732</u>	<u>1,082</u>

### 19. FINANCE COSTS

	Group	
	2007 \$'000	2006 \$'000
Interest on bank borrowings	1,192	337
Interest on bills payables	64	–
	<u>1,256</u>	<u>337</u>

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 20. PROFIT BEFORE TAX

This is determined after charging the following:

	Group	
	2007	2006
	\$'000	\$'000
Allowance for doubtful trade debts (Note 8)	63	–
Depreciation of property, plant and equipment (Note 5)	2,896	1,434
Net loss in foreign exchange	615	–
Operating lease rentals	–	27
Personnel expenses including directors' remuneration (Note 18)	1,732	1,082
Plant and equipment written off	–	1

### 21. INCOME TAX

	Group	
	2007	2006
	\$'000	\$'000
Current taxation	220	–

A reconciliation of the tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

	Group	
	2007	2006
	\$'000	\$'000
Profit before tax	8,617	5,393
Tax at the statutory tax rate of 18% (2006: 20%)	1,551	1,078
Different tax rates in other countries	16	–
Change in Singapore tax rate	8	–
Tax exemption	(43)	–
Expenses not deductible for tax purposes	45	36
Income not subject to tax	(1,198)	(1,315)
Utilisation of previously unrecognised		
- Tax losses	(35)	–
- Capital allowances	(6)	–
Deferred tax liabilities not recognised	(173)	–
Deferred tax assets not recognised	40	201
Others	15	–
Tax expense	220	–

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

#### 21. INCOME TAX (cont'd)

The Group has income derived from chartering of its Singapore registered ships. Such charter income qualifies for tax exemption under Section 13A of the Singapore Income Tax Act, Chapter 134. Accordingly, income tax liability on chartering income is not provided for.

Deferred tax asset has not been recognised in respect of the following temporary differences as there is no reasonable certainty of its recovery in future periods. The utilisation of tax losses and capital allowances is subject to the compliance of certain provisions of the Income Tax Act.

The Group has unrecognised tax losses of \$nil (2006: \$366,000) and capital allowances of \$nil (2006: \$31,000) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses and capital allowances in their respective countries of incorporation.

#### 22. EARNINGS PER SHARE

##### (a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company and the pre-invitation share capital of 214,200,000 ordinary shares.

	Group	
	2007 \$'000	2006 \$'000
Net profit attributable to equity holders of the Company	8,397	5,393
Pre-invitation share capital for basic earnings per share	214,200	214,200
Basic earning per share (cents)	3.9	2.5

##### (b) Diluted earnings per share

For the purpose of calculating diluted earnings per share, profit attributable to equity holders of the Company and the post-invitation share capital of 267,750,000 shares are adjusted for the effects of dilutive potential ordinary shares.

	Group	
	2007 \$'000	2006 \$'000
Net profit attributable to equity holders of the Company	8,397	5,393
Post-invitation share capital for basic earnings per share	267,750	267,750
Diluted earnings per share (cents)	3.1	2.0

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 23. RELATED PARTY TRANSACTIONS

Other than those related party information disclosed elsewhere in the combined financial statements, the following are significant related party transactions entered into by the Group with related parties who are not members of the Group during the year at terms agreed between the parties:

	Group	
	2007 \$'000	2006 \$'000
<b>Income</b>		
Charter income charged to related parties	10,222	5,795
<b>Cost and expenses</b>		
Crew supply fees charged by a related party	432	268
Ship agency fees charged by a related party	169	91
Charter fees charged by a related party	240	–
Office rental charged by related party	–	27
Administrative fee charged by a related party	–	2
Purchases of concrete mix and spare parts from related parties	1,008	1,342
Procurement fee charged by a related party	19	84
Consultancy fees paid to a related party	265	–
Purchase of materials from a related party	3,845	–
<b>Others</b>		
Key management personnel remuneration <sup>(1)</sup>	812	454
Purchase of equipment and machinery from a related party	237	64
Purchase of land from a related party <sup>(2)</sup>	–	1,544
Purchase of vessels from a related party	–	1,200
Sales of vessels to a related party	1,500	–
Vessels recovery fees paid to a related party capitalised as part of vessels cost	–	300

(1) This included directors' remuneration and relates to short term employment benefits

(2) Prior to the transfer of the land which was completed in August 2006, PT. Marcopolo Shipyard leased the land from the related party for the period from February 2005 to August 2006 for its shipyard operations on a rent free basis.

### 24. CAPITAL COMMITMENTS

Capital commitments contracted for as at the balance sheet date but not provided for in the consolidated financial statement is as follows: -

	Group	
	2007 \$'000	2006 \$'000
Capital commitments in respect of contracts placed for purchase property, plant and equipment	9,237	8,169

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

#### 25. SEGMENT INFORMATION

The Group's primary format for reporting segment information is business segments, with each segment representing a strategic business segment that offers different services. The Group's business segments are organised as follows:

- (i) Ship chartering – Relates to charter hire activities
- (ii) Shipyard - Relates to ship building and ship repair activities
- (iii) Others – Relates to general corporate activities

Unallocated segments are assets and liabilities which cannot be directly attributable to individual segments and it is impractical to allocate them to the segments.

The following tables present revenue and results information regarding the Group's business segment:

The Group 2007	Ship chartering \$'000	Shipyard \$'000	Others \$'000	Eliminations \$'000	Total \$'000
<b>Revenue</b>					
External sales	17,433	19,688	–	–	37,121
Inter-segment revenue	80	27	–	(107)	–
Total Revenue	17,513	19,715	–	(107)	37,121
<b>Segment results</b>					
-Profit from operations	9,328	564	(19)	–	9,873
Finance costs					(1,256)
<b>Profit before tax</b>					8,617
Income tax					(220)
<b>Profit after tax</b>					8,397
<b>Assets and liabilities</b>					
Segment assets	34,844	26,924	–	–	61,768
Unallocated assets					2,044
<b>Total assets</b>					63,812
Segment liabilities	17,580	19,888	–	–	37,468
Unallocated liabilities					916
<b>Total liabilities</b>					38,384
<b>Other information</b>					
Capital expenditures	10,402	6,109	–	–	16,511
Depreciation of property, plant and equipment	2,091	805	–	–	2,896

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

### 25. SEGMENT INFORMATION (cont'd)

The Group 2006	Ship chartering \$'000	Shipyards \$'000	Others \$'000	Total \$'000
<b>Revenue</b>	11,895	3,992	–	15,887
Segments results				
-Profit from operations	3,482	105	(16)	3,571
Negative goodwill arising on acquisition				2,159
Finance costs				(337)
<b>Profit before tax</b>				5,393
Income tax				#
<b>Profit after tax</b>				5,393
<b>Assets and liabilities</b>				
Segment assets	28,197	12,730	–	40,927
Unallocated assets				1,247
<b>Total assets</b>				42,174
Segment liabilities	15,091	8,657	–	23,748
Unallocated liabilities				7,564
<b>Total liabilities</b>				31,312
Other information				
Capital expenditures	17,441	10,698	–	28,139
Depreciation of property, plant and equipment	1,246	188	–	1,434

# denotes amounts less than S\$500

## NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 September 2007

(Amounts in thousands of Singapore dollars unless otherwise stated)

#### 25. SEGMENT INFORMATION (cont'd)

##### Geographical segments

The following tables present revenue, capital expenditures and certain asset information regarding the Group's geographical segments:

The Group	Singapore \$'000	Indonesia \$'000	Switzerland \$'000	Others \$'000	Total \$'000
<b>2007</b>					
Revenue	3,694	27,810	629	4,988	37,121
Segment assets	39,489	24,323	–	–	63,812
Capital expenditures	10,410	6,101	–	–	16,511
<b>2006</b>					
Revenue	2,328	8,596	3,676	1,287	15,887
Segment assets	30,298	11,876	–	–	42,174
Capital expenditures	18,660	9,479	–	–	28,139

#### 26. CONTINGENT LIABILITIES

On 3 September 2007, 2 customers owned by the same party, of a subsidiary PT. Marcopolo Shipyard claimed an approximately \$106,000 comprising of (i) \$73,780 for the late delivery of 4 vessels and (ii) IDR 193,274,010 (or approximately S\$32,000) for loss of income as a result of downtime needed to repair one of the 4 vessels.

The Company's legal adviser in Batam has responded on behalf of PT. Marcopolo Shipyard on 31 October 2007, stating that the two claims above has no merit nor basis. To date, there was no respond from the customer. There is no financial impact on the current financial year.

#### 27. SUBSEQUENT EVENTS

- The Company was admitted to the official list of the SGX-SESDAQ on 5 November 2007. Pursuant to the initial public offering exercise, the Company issued 53,550,000 ordinary shares at S\$0.28 per share for subscription of which 3,800,000 ordinary shares were by public offer, 49,750,000 ordinary shares were by placement. Gross proceeds of approximately \$14.994 million were raised. These shares will rank for all purposes *pari passu* with the existing ordinary shares of the Company.
- Subsequent to financial year end, the Group entered into agreements with a third party to purchase 7 units of tugboats amounting to \$8,960,000.
- The Group entered into a sale and purchase agreement with a third party to dispose of 1 unit of vessel for a consideration of \$1,490,000.

## **NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 30 September 2007**

*(Amounts in thousands of Singapore dollars unless otherwise stated)*

### **28. FINANCIAL INSTRUMENTS**

#### **Financial risk management objectives and policies**

The Group's principal financial instruments comprise bank borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operation. The Group has various other financial assets and liabilities such as trade receivables, and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk (both fair value and cash flow), liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks as summarised below.

#### **Credit risk**

Credit risk or the risk of counterparties defaulting, is managed through the application of credit approvals credit limits and debt monitoring procedures.

Financial instruments which potentially expose the Group to credit risk consist primarily of cash and cash equivalents and trade and other receivables. The cash and cash equivalents are placed with various reputable financial institutions.

The maximum exposure to credit risk is represented by the carrying amount of the financial assets as stated in the balance sheet. The Group has no significant concentrations of credit risk.

#### **Interest rate risk**

The Group's exposures to movement in market interest rates relate primarily to its long term debt obligations borrowings with financial institutions. The Group does not use derivative financial instruments to hedge its interest risk.

The Group obtains additional financing through bank borrowings. The Group's policy is to obtain the most favourable interest rates available.

Surplus funds are placed with reputable banks to generate interest income. Information relating to the Group's interest rate exposure is also disclosed in note 15.

#### **Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and leasing arrangements. The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and to mitigate the fluctuations in cash flows.

## **NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **For the year ended 30 September 2007**

*(Amounts in thousands of Singapore dollars unless otherwise stated)*

#### **28. FINANCIAL INSTRUMENTS (cont'd)**

##### **Foreign currency risk**

The Group operates in two countries and, as a result, is exposed to foreign exchange risks arising from various currency exposures. In addition to transactional exposures, the Group is also exposed to foreign exchange movements on its net investment in the foreign subsidiary. It is not the Group's policy to enter into derivative forward foreign exchange contracts for hedging and speculative purposes.

##### **Fair value**

The carrying amounts of the financial assets and financial liabilities with a maturity of less than one year are assumed to approximate their fair values.

The Group does not anticipate that the carrying amounts recorded at balance sheet dates would significantly differ from the values that would eventually be received or settled except as disclosed in Note 15.

## STATISTICS OF SHAREHOLDINGS

As at 18 December 2007

Number of shares issued : 267,750,000 ordinary shares  
 Class of shares : Ordinary shares  
 Voting rights : 1 vote for 1 ordinary shares

### Distribution of Shareholdings

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	0	0.00	0	0.00
1,000 - 10,000	1,156	75.21	4,076,000	1.52
10,001 - 1,000,000	371	24.14	25,648,626	9.58
1,000,001 AND ABOVE	10	0.65	238,025,374	88.90
<b>Total :</b>	<b>1,537</b>	<b>100.00</b>	<b>267,750,000</b>	<b>100.00</b>

### Twenty Largest Shareholders

No.	Name	No. of Shares	%
1.	NAUTICAL INTERNATIONAL HOLDINGS LTD.	213,557,374	79.76
2.	UOB KAY HIAN PRIVATE LIMITED	6,723,000	2.51
3.	KIM ENG SECURITIES PTE. LTD.	3,769,000	1.41
4.	GOI SENG HUI	3,000,000	1.12
5.	CIMB-GK SECURITIES PTE. LTD.	2,851,000	1.06
6.	2G CAPITAL PTE LTD	2,700,000	1.01
7.	OCBC SECURITIES PRIVATE LTD	1,848,000	0.69
8.	TEO KEE BOCK	1,300,000	0.49
9.	DBS NOMINEES PTE LTD	1,209,000	0.45
10.	DBS VICKERS SECURITIES (S) PTE LTD	1,068,000	0.40
11.	CITIBANK NOMINEES SINGAPORE PTE LTD	1,000,000	0.37
12.	HONG LEONG FINANCE NOMINEES PTE LTD	708,000	0.26
13.	LIM HAN BOON	664,101	0.25
14.	LEE TECK KENG (LI DEQIN)	660,000	0.25
15.	PHILLIP SECURITIES PTE LTD	529,000	0.20
16.	CHUA SUAN CHAI	500,000	0.19
17.	HL BANK NOMINEES (S) PTE LTD	500,000	0.19
18.	LEE CHONG SC	500,000	0.19
19.	LEE WAN LING (LI WANLING)	400,000	0.15
20.	UNITED OVERSEAS BANK NOMINEES PTE LTD	386,000	0.14
	<b>Total :</b>	<b>243,872,475</b>	<b>91.09</b>

## STATISTICS OF SHAREHOLDINGS

As at 18 December 2007

### Substantial Shareholders' Information

*(As recorded in the Register of Substantial Shareholders)*

Name	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Nautical International Holdings Ltd	213,557,374	79.76	–	–

### Compliance with Rule 723 of the SGX-ST Listing Manual

Based on information available and to the best knowledge of the Company, as at 18 December 2007, approximately 19.85% of the ordinary shares of the Company are held by the public. The Company is therefore in compliance with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

## **NOTICE OF ANNUAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the Second Annual General Meeting of the Company will be held at Gallery Hotel, 1 Nanson Road Singapore 238909 @ Robertson Quay, on Wednesday, 30 January 2008 at 10:30 a.m. to transact the following business:-

### **AS ORDINARY BUSINESS**

1. To review and adopt the Audited Financial Statements for the financial year ended 30 September 2007 together with the reports of the Directors and the Auditors thereon. **(Resolution 1)**
  2. To re-elect the following directors who are retiring under Article 103 of the Articles of Association of the Company:
    - (a) Ms Liely Lee, **(Resolution 2)**
    - (b) Mdm Lai Qin Zhi **(Resolution 3)**
- Note:**
- Mdm Lai Qin Zhi will upon re-election as Director of the Company, remain as a member of the Audit Committee and will be considered independent pursuant to Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited. She will also remain as a member of the Nominating and Remuneration Committee.
3. To approve the payment of Directors' Fees of S\$95,000 for the financial year ending 30 September 2008. **(Resolution 4)**
  4. To re-appoint Messrs Horwath First Trust as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 5)**
  5. To transact any other business which may properly be transacted at an Annual General Meeting.

### **AS SPECIAL BUSINESS**

To consider, and if thought fit, to pass the following Ordinary Resolutions (with or without amendments):-

6. Authority to issue shares **(Resolution 6)**

"That pursuant to Section 161 of the Companies Act, Cap. 50 and in accordance with Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, approval be and is hereby given to the Directors to issue:-

  - (i) shares in the capital of the Company (whether by way of rights, bonus or otherwise) or;
  - (ii) convertible securities; or
  - (iii) additional convertible securities arising from adjustments made to the number of convertible securities previously issued in the event of rights, bonus or capitalisation issues; or
  - (iv) shares arising from the conversion of convertible securities,

at any time and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit provided that:-

  - (i) the aggregate number of shares and convertible securities that may be issued shall not be more than 50% of the issued shares in the capital of the Company or such other limit as may be prescribed by the Singapore Exchange Securities Trading Limited ("SGX-ST") as at the date the general mandate is passed;

6. Authority to issue shares (cont'd)

- (ii) the aggregate number of shares and convertible securities to be issued other than on a pro-rata basis to existing shareholders shall not be more than 20% of the issued shares in the capital of the Company or such other limit as may be prescribed by the SGX-ST as at the date the general mandate is passed;
- (iii) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraphs (i) and (ii) above, the percentage of issued shares shall be calculated based on the issued shares in the capital of the Company as at the date the general mandate is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or employee stock options in issue as at the date the general mandate is passed and any subsequent consolidation or subdivision of the Company's shares; and
- (iv) unless earlier revoked or varied by the Company in general meeting, such authority shall continue in force until the next Annual General Meeting or the date by which the next Annual General Meeting is required by law to be held, whichever is earlier" [See Explanatory Note 1]

**(Resolution 6)**

7. Proposed Renewal of the General Mandate for Interested Person Transactions

"That:-

- (a) Approval be and is hereby given for the renewal of the mandate for the purpose of Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), for the Company, its subsidiaries and its associated companies, or any of them, to enter into any of the transactions falling within the types of Interested Person Transactions, as set out in the Appendix to the Annual Report (the "Appendix"), with any party who falls within the classes of Interested Persons as described in the Appendix and that such approval shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next annual general meeting of the Company;
- (b) the Audit Committee of the Company be and is hereby authorised to take such action as it deems proper in respect of procedures and to implement such procedures as may be necessary to take into consideration any amendment to Chapter 9 of the Listing Manual which may be prescribed by the SGX-ST from time to time;
- (c) the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary or in the interest of the Company to give effect to this Resolution; and
- (d) such approval shall, unless earlier revoked or varied by the Company in general meeting, continue to be in force until the next Annual General Meeting of the Company is held or is required by law to be held, whichever is earlier." [See Explanatory Note 2]

**(Resolution 7)**

**By Order of the Board**

**Lawrence Kwan**  
Secretary

Singapore, 15 January 2008

**Explanatory Notes on Special Business to be transacted:**

1. The Ordinary Resolution No. 6 in item 6 is to authorise the Directors of the Company from the date of the above Meeting until the next Annual General Meeting to issue shares and convertible securities in the Company up to an amount not exceeding in aggregate 50% of the issued share capital of the Company of which the total number of shares and convertible securities issued other than on a pro-rata basis to existing shareholders shall not exceed 20% of the issued share capital of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company. Rule 806(3) of the Listing Manual of Singapore Exchange Securities Trading Limited currently provides that the issued share capital of the Company for this purpose shall be the issued share capital at the time this resolution is passed (after adjusting for new shares arising from the conversion of convertible securities or share options on issue at the time this resolution is passed and any subsequent consolidation or subdivision of the Company's shares). This authority will, unless revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.
2. The Ordinary Resolution No. 7 in item 7, if passed, renews the General Mandate authorising the Directors of the Company to enter into certain interested person transactions with persons who are considered "interested persons" (as defined in Chapter 9 of the Listing Manual of the SGX-ST).

**Notes:**

1. A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint one or two proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. Where a member appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his shareholding to be represented by each proxy.
3. A corporation which is a member of the Company may authorise by resolution of its directors or other governing body, such person as it thinks fit to act as its representative at the meeting.
4. The instrument appointing a proxy must be deposited at the registered office of the Company at 1 Sims Lane #04-11 Singapore 387355 not less than forty-eight (48) hours before the time for holding the Annual General Meeting.

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**MARCO POLO MARINE LTD**  
(formerly known as MARCO POLO MARINE PTE. LTD.)  
(Incorporated in Singapore)

Registration number: 200610073Z

**IMPORTANT :-**

1. This Annual Report is also forwarded to investors who have used their CPF monies to buy shares in the Company at the request of their CPF Approved Nominees, and is sent solely for their information only.
2. The Proxy Form is, therefore, not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

**ANNUAL GENERAL MEETING PROXY FORM**

I/We \_\_\_\_\_ (Name)

of \_\_\_\_\_ (Address)

being a member/members of **MARCO POLO MARINE LTD** hereby appoint:

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

as my/our proxy/proxies to attend and to vote for me/us and on my/our behalf at the Second Annual General Meeting of the Company to be held at Gallery Hotel, 1 Nanson Road, Singapore 238909 @ Robertson Quay on Wednesday, 30 January 2008 at 10:30 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the resolutions to be proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/ proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the Meeting.

Resolution No.	ORDINARY RESOLUTIONS	To be used on a show of hands		To be used in the event of a poll	
		For*	Against*	For**	Against**
1.	To review and adopt the Audited Financial Statements for the financial year ended 30 September 2007 together with the reports of the Directors and the Auditors thereon.				
2.	To re-elect Ms Liely Lee, a Director retiring under Article 103 of the Articles of Association of the Company.				
3.	To re-elect Mdm Lai Qin Zhi, a Director retiring under Article 103 of the Articles of Association of the Company.				
4.	To approve the payment of Directors' Fees of S\$95,000 for the financial year ending 2008.				
5.	To re-appoint Messrs Horwath First Trust as Auditors and to authorise the Directors to fix their remuneration.				
<b>SPECIAL BUSINESS</b>					
6.	To authorise Directors to issue shares pursuant to Section 161 of the Companies Act, Cap. 50. and in accordance with Rule 806 of the Listing Manual.				
7.	Proposed Renewal of the General Mandate for Interested Person Transactions.				

\* Please indicate your vote "For" or "Against" with a "✓" within the box provided.

\*\* If you wish to exercise all your votes "For" or "Against", please tick (✓) within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2008

Total number of shares in:	Number of shares
(a) CDP Register	
(b) Register of members	

\_\_\_\_\_  
Signature(s) of Member(s) or Common seal

**IMPORTANT: PLEASE READ NOTES FOR PROXY FORM**



## Notes

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If the number of shares is not inserted, this proxy form will be deemed to relate to the entire number of ordinary shares in the Company registered in your name(s).
2. A member entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
3. Where a member appoints more than one proxy, he shall specify the proportion of his shareholding or the number of shares to be represented by each proxy. If no such proportion or number is specified, the first-named proxy may be treated as representing 100 per cent of the shareholding and any second-named proxy as alternate to the first-named.
4. The instrument appointing a proxy, together with the power of attorney (if any) under which it is signed or a notarially certified or office copy thereof, shall be deposited at the Registered Office at 1 Sims Lane #04-11 Singapore 387355, not less than 48 hours before the time appointed for the Meeting.
5. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing; or if such appointor is a corporation under its common seal, if any, and, if none, then under the hand of some officer duly authorised in that behalf. An instrument appointing a proxy to vote at a meeting shall be deemed to include the power to demand or concur in demanding a poll on behalf of the appointor.
6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the meeting, in accordance with Section 179 of the Companies Act, Cap. 50.
7. Please indicate with a "✓" in the appropriate space how you wish your proxy to vote. If this proxy form is returned without any indication as to how your proxy shall vote, he will vote or abstain from voting as he thinks fit.

## General

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or when the true intentions of the appointor are not ascertainable from the instruments of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.



**MARCO POLO MARINE LTD**  
Registration Number: 200610073Z

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