



MARCO POLO MARINE LTD
(Company Registration No. 200610073Z)
(Incorporated in the Republic of Singapore)

**THE PROPOSED ACQUISITION OF A 49% EQUITY STAKE IN P.T. PELAYARAN NASIONAL
BINA BUANA RAYA, AN INDONESIAN ENTITY OWNED BY
INTERESTED PERSONS OF MARCO POLO MARINE LTD.**

1. INTRODUCTION

The Board of Directors (the “**Board**”) of Marco Polo Marine Ltd. (the “**Company**”) wishes to announce that the Company had via its wholly-owned subsidiary, Marco Polo Shipping Co Pte Ltd, entered into an investment agreement on 6 March March 2011 (“**Investment Agreement**”) with P.T. Pelayaran Nasional Bina Buana Raya (“**BBR**”) for the proposed acquisition of a 49% equity stake in BBR for a consideration of approximately IDR108,679.7 million (equivalent to approximately S\$15.6 million) (the “**Acquisition**”).

As at the date of this announcement, BBR is 100% collectively owned by our Executive Chairman, Mr Lee Wan Tang, our Chief Executive Officer, Mr Sean Lee Yun Feng, our non-Executive Director, Mdm Lai Qin Zhi and our Executive Director, Ms Liely Lee (together, the “**Interested Persons**”). The Interested Persons are deemed to be interested collectively in approximately 55.2% of the total issued and paid-up capital of the Company. Mr Lee Wan Tang is also deemed to be a Controlling Shareholder of the Company. Accordingly, the Acquisition constitutes an interested person transaction within the meaning of Chapter 9 of the listing manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST Listing Manual**”).

The Acquisition is also classified as an acquisition that comes within Chapter 10 of the Listing Manual.

BBR is presently principally engaged in ship agency functions, such as clearing of customs, and investments in and ownership of vessels acquired from the Company and its subsidiaries (“**Group**”) in connection with certain sale-and-leaseback arrangements with the Group (“**Sale-and-Leaseback Arrangements**”).

2. THE PROPOSED ACQUISITION AND RELATED MATTERS

2.1 ABOUT BBR

BBR is presently a local capital investment company wholly-owned by Indonesians with limited liability, a business entity often referred to as a PMDN by the Indonesian abbreviation of Perusahaan Modal Dalam Negeri. incorporated in the Free-Trade-Zone of Bintan, Riau Province, Indonesia on 7 February 1998. BBR is principally engaged in ship agency functions, such as the clearing of customs, and investments in and ownership of vessels. As at the date of this announcement, it has an issued and paid-up share capital of IDR3,000 million

(equivalent to approximately S\$0.4 million), comprising 3,000 ordinary shares of IDR1,000,000 each, and owns 17 tugboats and 17 barges. The Interested Persons presently own 100% of BBR. Our Chief Executive Officer, Mr Sean Lee Yun Feng, is also a member of the board of commissioners of BBR.

Based on the management accounts of BBR for the full financial year ended 31 December 2010 (the “**Cut-Off Date**”), BBR achieved a profit after tax of approximately IDR10,509.4 million (equivalent to approximately S\$1.5 million) against a revenue of approximately IDR55,792.4 million (equivalent to approximately S\$8.0 million) and registered a NTA of approximately IDR20,803.2 million (equivalent to approximately S\$3.0 million) as at the Cut-Off Date.

All information in this announcement relating to BBR has been provided by the Interested Persons.

2.2 PRINCIPAL TERMS AND SALIENT FEATURES OF THE ACQUISITION

(i) The Proposed Acquisition and the Consideration

Pursuant to the Investment Agreement, the Company proposes to acquire 91,575 new ordinary shares of par value of IDR1,000,000 each in the share capital of BBR (“**Consideration Shares**”) at IDR1.2 million (equivalent to approximately S\$170.0) each, representing a 49% equity interest in BBR on an enlarged basis for a consideration of approximately IDR108,679.7 million (equivalent to approximately S\$15.6 million) (“**Consideration**”). The Consideration will be satisfied by the payment of IDR79,363.7 million (equivalent to approximately S\$11.4 million) in cash and IDR29,316.0 million (equivalent to approximately S\$4.2 million) in kind through the injection of certain vessels currently owned by the Group (the “**Vessels Contribution**”).

The Consideration Shares are to be acquired free from all encumbrances and together with all the rights, benefits and entitlements attaching thereto as at the date of the Investment Agreement and thereafter.

The shareholders of BBR and their respective shareholdings in BBR before and after the Completion are set out below:

Shareholders of BBR	Before the Acquisition		After the Acquisition	
	No of shares	%	No of shares	%
Interested Persons	3,000	100.0	95,312 ⁽¹⁾	51.0
MPS or any of its wholly-owned subsidiaries	-	-	91,575	49.0
	3,000	100.0	186,887	100.0

Note:

(1) Including the 92,312 capitalization shares of par value of IDR1,000,000 each in the share capital of BBR to be issued by BBR pursuant to the Capitalization.

(ii) Determination of the Consideration

The Consideration of IDR108,679.7 million (equivalent to approximately S\$15.6 million) translates into a pre-Acquisition market capitalization of BBR as at the Cut-Off

Date (assuming the completion of the Capitalization) of approximately IDR113,115.6 million (equivalent to approximately S\$16.2 million), which:

- (a) equates the Adjusted NTA (as defined below) of BBR as at the Cut-Off Date prior to the Acquisition (assuming the completion of the Capitalization (as defined below)); and
- (b) represents a discount of approximately 12.9% to the Adjusted Appraised NTA (as defined below) of BBR as at the Cut-Off Date prior to the Acquisition (assuming the completion of the Capitalization).

For the purposes of this announcement:

“Capitalization” means the proposed capitalization of all amounts due from BBR to the relevant Interested Persons as at the Cut-Off Date (being the total amount of approximately IDR92,312.4 million (equivalent to approximately S\$13.2 million).

“Adjusted NTA” means the net tangible assets of BBR as at the Cut-Off Date, adjusted for the Capitalization, amounting to approximately IDR113,115.6 million (equivalent to approximately S\$16.2 million).

“Adjusted Appraised NTA” means the net tangible assets of BBR as at the Cut-Off Date adjusted for the Capitalization and based on the aggregate fair value of approximately IDR129,766.7 million (equivalent to approximately S\$18.6 million) as appraised by a valuer appointed by the Company.

The Consideration was arrived at on an arm’s length basis and on normal commercial terms after taking into consideration, amongst other things, the following factors:

- (1) The rationale and benefits for the Acquisition as outlined in paragraph 3 below;
- (2) The warranty provided by our Executive Chairman, Mr Lee Wan Tang (**“Mr Lee”**), and our Non-Executive Director, Mdm. Lai Qin Zhi (**“Mdm Lai”**), jointly and severally that the Adjusted NTA of BBR as at the Cut-Off Date, when audited by the Company’s auditors, will not fall below the value which is warranted. In the event of any shortfall, such a deficit shall be topped up by Mr Lee and Mdm Lai jointly and severally in cash to BBR (the **“Till Cut-Off Date Warranty”**);
- (3) The warranty provided by Mr Lee and Mdm Lai jointly and severally that the NTA of BBR as at the date of completion of the Acquisition (**“Completion”**) (based on the management accounts of BBR as at the date of Completion and as audited by the Company’s auditors) will not be less than the Adjusted NTA of BBR as at the Cut-Off Date. In the event of any shortfall, such a deficit shall be topped up by Mr Lee and Mdm Lai jointly and severally in cash to BBR (the **“Till Completion Warranty”**); and
- (3) Assuming that BBR remains profitable and the fair values of the fleet remain unchanged from 1 January 2011 till the date of Completion, the Adjusted NTA of BBR as at the Cut-Off Date will be at a discount to the net tangible asset of BBR as at the date of Completion.

(iii) Conditions Precedent

The Completion of the Acquisition is conditional upon, amongst other things:

- (a) the approval of the Shareholders (other than the Interested Persons and their respective associates) for the Acquisition at an extraordinary general meeting to be convened;
- (b) the parties having obtained all the permits, approvals, authorizations and consents of the relevant government authorities of Indonesia or third parties (including without limit the approval of the Indonesian Capital Investment Coordinating Board (BKPM)) necessary to perform their respective obligations under the Investment Agreement and to complete the Acquisition; and
- (c) all conditions under the Investment Agreement being fulfilled, including but not limited to:
 - (i) the Capitalization; and
 - (ii) the conversion of BBR from a Penanaman Modal Dalam Negeri (PMDN) status to a Penanaman Modal Asing (PMA) status.

If any of the above conditions precedent is not fulfilled by 31 December 2011 or waived, either party to the Investment Agreement may terminate the Investment Agreement by giving notice to the other party, provided however, that no party may give such notice of termination if such non-occurrence of Completion results directly or indirectly from such party's willful breach or default of any provision of the Investment Agreement.

(iv) Other Terms

For the avoidance of doubts, from 1 January 2011 to the date of Completion:

- (a) all amounts due from BBR to the Interested Persons shall, apart from being interest-free and carrying no fixed term of repayment, not be capitalized but remain as debt obligations of BBR; and
- (b) no amount shall be due to or from BBR in relation to the Interested Persons and their respective associates, unless the transaction concerned is in compliance with Chapter 9 of the Listing Manual or the prevailing general mandate the Company procured from Shareholders pursuant to Chapter 9 of the Listing Manual, whereby authority was given to enable the Company, its subsidiaries and associated companies (which would include BBR following the Completion) (the "**EAR Group**"), which are considered to be "entities at risk" within the meaning of Rule 904(2) of the Listing Manual, in their ordinary course of businesses to enter into categories of transactions with specified classes of the Company's interested persons, provided that such transactions are entered into on an arm's basis and on normal commercial terms.

(v) Board Representation in BBR

For as long as BBR remains unlisted on a stock exchange, Marco Polo Shipping Co Pte Ltd shall be entitled to nominate such number of persons, representing at least 49% of the total number of members on the Board and Board of Commissioners (rounded up to the nearest whole), for appointment to each of the Board as director(s) and the Board of Commissioners as commissioner(s) (collectively, "**Investor Nominee Directors**") with effect from Completion, subject to his/her consent to act as such. Upon listing of BBR on a stock exchange, the number of persons whom Marco Polo Shipping Co Pte Ltd shall be entitled to appoint as Investor Nominee Directors

shall be as close as possible to the proportion of its shareholding interest in the BBR, subject to no less than two (2) Investor Nominee Directors.

3. **RATIONALE FOR THE PROPOSED ACQUISITION AND MODIFICATIONS TO THE UNDERTAKINGS**

3.1 **Background**

- (i) The Company is the holding company of an integrated shipping group principally engaged in the following businesses:
- (a) ship chartering business, which includes the provision of chartering, re-chartering and transshipment services of vessels, such as tugboats and barges, to its customers (the “**Ship Chartering Business**”); and
 - (b) shipyard business, which includes the provision of building, repair and broking services of vessels, such as tugboats and barges.

Financial Year	Total Group Revenue S\$m	Revenue from Ship Chartering Business S\$m (as a % of Total Group Revenue)	Revenue from Domestic Shipping (constituting part of the Ship Chartering Business) S\$m (as a % of Ship Chartering Business Revenue)
FY2009	54.5	27.0 (49.5%)	6.2 (22.7%)
FY2010	64.3	32.5 (50.5%)	10.9 (33.6%)

Changes in the Business Environment and the Resultant Impact Arising from the Stricter Enforcement of the Cabotage Principle and Other Matters

- (ii) At the time of the initial public offering of the Company, a substantial portion of the revenue and profits of the Group was derived from the chartering activities conducted on international waters (namely, chartering activities involving the transportation of granite from Indonesia to Singapore) (the “**International Shipping**”). Based on the audited consolidated accounts of the Group for the financial years ended 30 September 2007, 30 September 2008, 30 September 2009 and 30 September 2010, approximately 80.2%, 93.8%, 77.3% and 66.4% respectively of the revenues of the Ship Chartering Business were derived from International Shipping. The fall in the International Shipping activities over the years, a trend which may worsen further, is partly attributable to the fact that reclamation works in Singapore have slowed down substantially in recent years. While the Group continues to conduct its International Shipping business, it also needs to watch out for its Domestic Shipping business, particularly for coal in view of the expected substantial increase in shipping activities involving the transportation of coal within the Indonesian waters. However, for reasons stated below, the Sale-and-Leaseback Arrangements which currently allow the Group to carry out its Domestic Shipping business would not be feasible in the long-term.
- (iii) In the light of the foregoing, in particular, the fact that the Group’s reliance on its Domestic Shipping business will become more significant over time, it is essential for the Group to be able to not only maintain but also to expand its Domestic Shipping business in the longer term. The Acquisition is part of the Company’s pre-emptive

measure to ensure the long-term sustainability of the Group with regard to its Ship Chartering Business.

- (iv) As disclosed in the prospectus dated 26 October 2007 issued by the Company in connection with its initial public offering in Singapore (the "**Prospectus**"):
 - (a) The Group's Domestic Shipping is subject to, among other things, the enforcement of the cabotage principle, which generally requires the sea-borne transportation of various key specified categories of goods (including granite and coal which constitute the key commodities transported by the Group via its Domestic Shipping) to be undertaken solely by Indonesian-flagged vessels (the "**Cabotage Principle**"). The Cabotage Principle has been progressively enforced by Indonesia's Ministry of Communications since 2005 according to a scheduled timeline specified for each commodity. For instance, the Cabotage Principle has been enforced with effect from 1 January 2008 for granite while that for coal has been with effect from 1 January 2010.
 - (b) As shipping (being the principal business of BBR) falls under the "negative list" with restriction to foreigners to own more than 49%, the Directorate General of Sea Communication of the Department of Communication (or Seacom) has notified the Capital Investment Coordinating Board (or BKPM) that Seacom would no longer issue the requisite shipping licence to a foreign investment law shipping company if more than 49% of such company's shares are held by foreigners. Accordingly, pursuant to current policy, strategic foreign investors may not own more than 49% of a foreign investment law shipping company. Additionally, for a foreign investment law shipping company to be able to engage in Domestic Shipping, the entity concerned must own at least one vessel which is at least of 5,000 tons in gross tonnage (the "**Tonnage Requirement**"). It should be noted that one effect arising from the Tonnage Requirement is that there are limited number of Indonesian counterparts that is able to meet the Tonnage Requirement and which is interested in going into a joint venture with the Group to carry out the Domestic Shipping business.
 - (c) The Group has entered into Sale-and-Leaseback Arrangements since 2007. Pursuant to such arrangements and with a view towards complying with the Cabotage Principle, the vessels were first disposed by the Group to BBR at market rates, which BBR would then have them re-flagged into Indonesian-flagged vessels before chartering them at market rates to the Group for the Group to carry out the Domestic Shipping through re-chartering.
- (v) Accordingly, the Group presently engages in its Domestic Shipping business substantially via the Sale-and-Leaseback Arrangements. The re-chartering revenues which the Group derived from the Domestic Shipping business contribute substantially to its overall Ship Chartering Business revenue.
- (vi) The management of the Company has informed the Board that the Sale-and-Leaseback Arrangement, in overcoming the Cabotage Principle, is likely to be a temporary solution as it is believed that the Indonesian authorities are likely to tighten the enforcement as a matter of time. If this happens, the Group will no longer be able to conduct Domestic Shipping and its Ship Chartering Business may accordingly be significantly affected.
- (vii) In addition to the foregoing, the Company notes that while the current Sale-and-Leaseback Arrangements provide the Group with a workable platform to deploy and ply its vessels in Indonesian waters for its Domestic Shipping business in full compliance with shipping regulations, such arrangements require BBR to be funded with sufficient capital/resources to continue to take on more vessels from the Group for deployment in Indonesian waters. Thus far, such funding of BBR has been met through the Interested Persons as the controlling shareholders of the Company.

- (viii) In addition, Indonesian-based customers of the Ship Chartering Business have increasingly requested that charter contracts be entered into directly with an Indonesian entity of the Group or directly with BBR as the ship owner – as opposed to entering into charter contracts with the Company outside Indonesia.

3.2 The Proposals

- (i) To ensure that the Group continues to benefit from its exposure to Domestic Shipping and to put in place a longer term and sustainable business structure, the Company proposes the following:
- (a) the Company will endeavor to complete the Acquisition pursuant to the Investment Agreement. It is intended that, following the completion of the Acquisition, BBR will engage only in the Domestic Shipping business and the Group will continue to be engaged in the International Shipping business;
 - (b) the current intention is to make BBR a financially self-sustaining enterprise and one of the avenues to achieve the same is to seek a listing of BBR on a reputable regional stock exchange (the “**Planned IPO**”);
 - (c) subject to BBR being able to raise the necessary funding, the Group will sell some more of its vessels which are earmarked for the Domestic Shipping business to BBR; such sale:
 - when carried out prior to Completion, will continue to comply with the guidelines and review procedures prescribed under the renewed general mandate for interested person transactions which the Company procured from Shareholders on 3 September 2007 and as renewed from time to time; and
 - when carried out subsequent to Completion, will not be deemed interested person transactions as BBR by then would have been a part of the EAR Group.
- (ii) Based on the audited accounts of the Group for FY2010, had the Acquisition been effected from 1 October 2009, the profit before tax (not taking into account the profit derived from the Group’s shipyard business) (the “**Ex-Shipyard PBT**”) on a pro forma basis that could be enjoyed by the Group would be increased as follows:

Ship Chartering Business for FY2010	Pursuant to the Sale-and-Leaseback Arrangements	Pursuant to the Acquisition
Ex-Shipyard PBT	S\$8.8 million	S\$9.5 million ⁽¹⁾

Note:

- (1) The figure is **for illustrative purposes only** and may not be reflective of actual financial performance of the Group moving forward.

3.3 Rationale and Benefits

The Directors are of the view that the Acquisition would be in the best interests of the Group for the following reasons:

- (i) In view of the need to take the necessary pre-emptive measures to refocus its shipping business as well as address the concerns raised above, the management of the Company is of the view that the Acquisition will be in the interest of the Company in the longer term.
- (ii) By taking up the 49% Equity Stake, which is the maximum equity stake allowed to be taken by a foreigner without affecting the ability of BBR to ply the Indonesian waters as a domestic shipping company, the Group looks towards tapping on the currently expected significant increase in shipping activities involving the transportation of commodities within the Indonesian waters through a participation in the business and returns of BBR.
- (iii) The management of the Company is of the view that, if approved, the proposals as set out in paragraph 3.2 above are expected to bring the following benefits to the Group:
 - (a) The Group will be able to continue to benefit from the Domestic Shipping business through its equity interest in BBR, even in the event of any change in law or tightening of the Cabotage Principle (including its enforcement) which prevents alternative transactional structures such as the Sale-and-Leaseback Arrangements;
 - (b) The Planned IPO of BBR on a reputable regional stock exchange, if successful, will enable BBR to raise funds through debt issues, equity issues and/or bank finance from multiple platforms and not be reliant on the Interested Persons or the Company for funding which can become a limiting factor for growth in the longer term. While best efforts will be made to apply for the Planned IPO, as the Planned IPO hinges on many factors, some of which are beyond the control of BBR, Shareholders should note that there can be no assurance for the success of the Planned IPO;
 - (c) Following from the above, as BBR would be able to raise funds to aid its purchase of vessels from the Group which are intended to be used for Domestic Shipping, this would, in turn, enable the Group to improve its gearing and manage its cash flows and cash reserves more efficiently; and
 - (d) The Group will be able to meet the increasing demands from customers of the Group's Domestic Shipping business for charter contracts to be signed directly between the customers' Indonesian entities and an Indonesian ship owner.

3.4 Modifications to the Undertakings

As disclosed in pages 138 and 139 of the Prospectus, BBR has given certain undertakings in favour of the Company including, among others, the following:

- (i) BBR's ship chartering operations are to be carried out solely for the purposes of the Sale-and-Leaseback Arrangements with the Group;
- (ii) Save for the Sale-and-Leaseback Arrangements with the Group, BBR will not (whether present or future) carry on any business that is directly or indirectly in competition with the business of the Group; and
- (iii) BBR will not solicit, market to or entice away, whether directly or indirectly, from the Group, any customer.

Each of the Interested Directors has further undertaken to the Company that for so long as (i) he/she remains a Director of the Company or any of its subsidiaries; and/or (ii) the Interested Directors individually or collectively are interested in 15% or more (whether direct or indirect) in the voting shares of the Company, each of them will not without the consent of the Company, inter alia, directly or indirectly carry on or be engaged or interested in any capacity in a business, trade or occupation which competes with any shipping or shipyard business carried on or proposed to be carried on by the Group.

In the light of the Acquisition and the plan for BBR to be managed and operated as an independent and self-sustaining shipping business enterprise within the jurisdiction (including the territorial waters) of Indonesia, the certain modifications to the undertakings stated above ("**Modifications to the Undertakings**") would be necessary. Further details on the Modifications to the Undertakings will be set out in the Circular (as defined below) to be issued to the Shareholders and the approval of the Shareholders (other than the Interested Persons and their respective associates) will be sought for such modifications.

3.5 Right of First Refusal to be Granted by BBR

Following the completion of the Acquisition and in respect of any vessel which BBR requires for its ship chartering business or operations, BBR agrees to grant to our Group a first right of refusal to sell such a vessel on terms and conditions to be determined on arm's length basis.

4. PROPOSED ACQUISITION – AN INTERESTED PERSON TRANSACTION

4.1 The Acquisition constitutes an interested person transaction for the purposes of Chapter 9 of the SGX-ST Listing Manual.

The Consideration represents approximately 16.9% of the Group's latest audited NTA of approximately S\$91.9 million. As the Acquisition is an interested person transaction, approval of the Shareholders (other than the Interested Persons and their respective associates) is required under Chapter 9 of the SGX-ST Listing Manual.

Save as disclosed above, the Group has not engaged in any other interested person transactions with the Interested Persons in the current financial year.

4.2 Pursuant to Chapter 9 of the SGX-ST Listing Manual, DMG & Partners Securities Pte Ltd has been appointed as the independent financial adviser ("**Independent Financial Adviser**") to the Audit Committee, the members of which comprise the Independent Directors, to opine on whether the Acquisition, being an interested person transaction for the purposes of SGX-ST Listing Manual, is on normal commercial terms and is not prejudicial to the interests of the Company and its Shareholders (other than the Interested Persons and their respective associates).

4.3 The recommendation and advice of the Independent Financial Adviser will be reproduced in the circular to be issued by the Company in connection with the Acquisition and the extraordinary general meeting to be convened to obtain the approval of the Shareholders (other than Interested Persons and their respective associates) for the Acquisition and the related matters ("**Circular**").

5. CHAPTER 10 OF THE SGX-ST LISTING MANUAL RELATING TO THE PROPOSED ACQUISITION

5.1 Separately and for the purpose of Chapter 10 of the Listing Manual, the relative figures that were computed on the bases set out in Rule 1006 of the Listing Manual are as follows:

Rule 1006(a)	Net asset value of the assets to be disposed of, compared with the Group's net asset value	Not applicable as the subject matter concerns an acquisition
Rule 1006(b)	Profit before income tax and minority interests attributable to the assets acquired, compared with the Group's profit before income tax and minority interests	3.7%
Rule 1006(c)	Aggregate value of the Consideration, compared with the Group's market capitalization of approximately S\$139.7 million as at 4 March 2011	11.1%
Rule 1006(d)	The number of equity securities issued by the Company as consideration for the Acquisition, compared with the number of equity securities previously in issue	Not applicable as no securities will be issued for the Acquisition

5.2 Financial Effects of the Acquisition

The pro forma financial effects of the Acquisition below are purely for illustrative purposes only and do not reflect the future actual financial position of the Group after the completion of the Acquisition. The financial effects of the Acquisition are based on the audited consolidated financial statements of the Group for FY2010.

(i) *Share Capital*

The Acquisition would have no effect on the issued share capital of the Company as the Consideration will be satisfied in cash and in kind through the Vessels Contribution.

(ii) *NTA*

Assuming that the Acquisition had been completed on 30 September 2010, the pro forma effects on the consolidated NTA of the Group as at 30 September 2010 would have been as follows:

	Before the Acquisition	After the Acquisition
NTA (S\$'000)	91,896	92,713
Number of shares ⁽¹⁾	305,750,000	305,750,000
NTA per Share (cents)	30.06	30.32

Note:

(1) Being the number of Shares in issue as at 30 September 2010

(iii) *Earnings per Share*

Assuming that the Acquisition had been completed on 1 October 2009, the pro forma effect of the Acquisition on the EPS of the Group for FY2010 would have been as follows:

	Before the Acquisition	After the Acquisition
Profit after tax (S\$'000)	19,119	19,857
Number of shares ⁽¹⁾	305,750,000	305,750,000
EPS (cents)	6.25	6.49

Note:

(1) Being the weighted number of Shares in issue during FY2010

(iv) *Gearing*

Assuming that the Acquisition had been completed on 30 September 2010, the effect of the Acquisition on the gearing (defined as the aggregate value of all interest-bearing borrowings as a percentage of the shareholders' fund) of the Group as at 30 September 2010 would have been as follows:

	Before the Acquisition	After the Acquisition
Total borrowings (S\$'000)	53,309	53,309
Shareholders' funds (S\$'000)	91,896	92,713
Gearing	58.01%	57.50%

6. DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS

Our Executive Chairman, Mr Lee Wan Tang, is one of the Interested Persons and is deemed to be a controlling shareholder of the Company by virtue of the interest held by our controlling shareholder, Nautical International Holdings Limited. The other three Interested Persons are our Chief Executive Officer, Mr Sean Lee Yun Feng, our Non-Executive Director, Mdm. Lai Qin Zhi and our Executive Director, Ms Liely Lee.

Save as disclosed above, none of the Directors or substantial Shareholders of the Company has any interest, direct or indirect, in the Acquisition and the Modifications to the Undertakings.

7. VOTING ABSTENTIONS

The Interested Persons will, and will procure their respective associates to, abstain from voting on the ordinary resolution in respect of the Acquisition to be tabled at an extraordinary general meeting to be convened in due course to consider the Acquisition and the Modifications to the Undertakings (the "EGM"). The Interested Persons will not, and will procure that their respective associates not to, accept nominations as proxy or otherwise for voting at the EGM.

8. DIRECTORS' APPOINTMENTS AND SERVICE CONTRACTS

There are no directors proposed to be appointed to the Company in connection with the Acquisition. Accordingly, no service contract is proposed to be entered into between the Company and any such person.

9. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Investment Agreement is available for inspection at the registered office of the Company at 11 Sims Drive #02-01 SCN Industrial Building, Singapore 387385 during normal business hours for a period of three (3) months from the date hereof.

10. OPINION OF THE AUDIT COMMITTEE

Pursuant to Chapter 9 of the SGX-ST Listing Manual, the Audit Committee of the Company (comprising the Independent Directors) will obtain an opinion from the Independent Financial Adviser, on whether or not the Acquisition is:-

- (a) on normal commercial terms; and
- (b) prejudicial to the interests of the Company and its Shareholders (other than the Interested Persons and their respective associates).

The Audit Committee of the Company will announce their recommendations on the above matters (after reviewing the advice of the Independent Financial Adviser) in the Circular in due course.

11. CIRCULAR TO SHAREHOLDERS

The Circular setting out information on the Acquisition and the Modifications to the Undertakings, together with the advice and recommendations of the IFA as well as a notice of the EGM will be despatched to shareholders of the Company in due course.

In the meantime, shareholders of the Company are advised to refrain from taking any action in relation to their shares in the Company, which may be prejudicial to their interests until they or their advisers have considered the information and the recommendations to be set out in the Circular.

By Order of the Board of Directors

Sean Lee Yun Feng
Chief Executive Officer
6 March 2011