



**MARCO POLO MARINE LTD**  
Incorporated in the Republic of Singapore  
(Company Registration Number: 200610073Z)

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**RESPONSES TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RESPECT OF THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR EDNED 30 SEPTEMBER 2021**

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The Board of Directors (the “**Board**”) of Marco Polo Marine Ltd (the “**Company**”, and together with its subsidiaries (collectively, the “**Group**”) refers to the queries raised by the Securities Investors Association (“**SIAS**”) in respect of the Company’s annual report for the financial year ended 30 September 2021 (“**Annual Report 2021**”). The Company wishes to provide its responses to the queries from SIAS below:

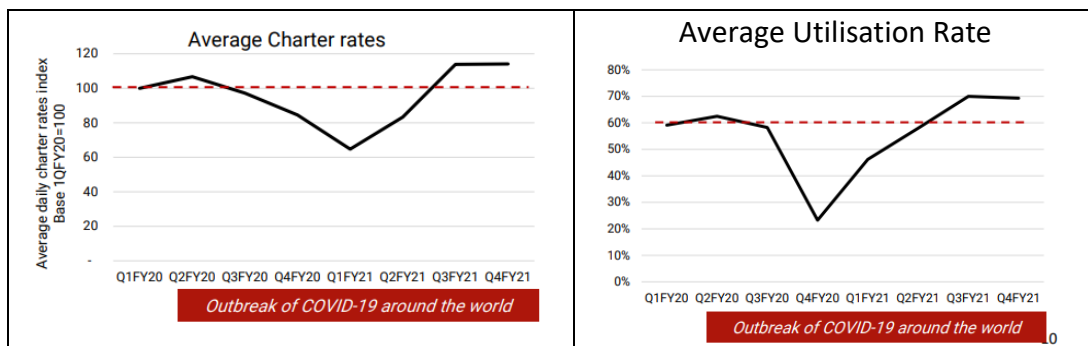
**SIAS Query**

1. Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

(i) Utilisation rates: What were the utilisation rates in FY2021 and FY2020? Details of the group’s vessel portfolio can be found on page 13 of the annual report.

**Company’s Response:**

The average utilisation rates of the Group’s OSVs were 51% and 61% for FY2020 and FY2021 respectively.



### **SIAS Query**

1(ii) Charter rates (offshore): Similarly, what were the charter rates for the offshore vessels in the past 3 years? In the joint letter from the chairman and CEO, it was disclosed that the group experienced growth in utilisation rate and average charter rates for its offshore vessels, “which have both surpassed preCOVID-19 levels”. Does management expect the increase in charter rates to be sustainable?

### **Company’s Response:**

After average charter rates bottomed in 1QFY2021 (Oct 2020- Dec 2020), the Group started to see a recovery in charter rates, driven by the increase in demand from the oil and gas sector (following higher oil prices) and the offshore windfarm sector.

Looking ahead, up to 50% of the Group’s vessels, which are currently chartered at rates lower than the current spot rates, will be due for renewal by 1HFY2022. Given the continued strong demand, the Group is optimistic of achieving higher average charter rates for its vessels in 1HFY2022. In addition, the Group also intends to double the number of vessels serving the offshore windfarm sector in Taiwan from the current 20% to up to 40% by end of FY2022. Rates for vessels chartered out to offshore windfarms tend to be higher than vessels chartered out for the Oil & Gas sector, although operational costs are also expected to be higher for the vessels chartered to offshore windfarms.

### **SIAS Query**

1(iii) Shipyard: How have the shipyard operations been impacted by the pandemic? Is the group facing any manpower constraints? With the shipyard “operating near full capacity” (page 6), is the growth from the ship building & repair segment limited to the dry dock extension program?

### **Company’s Response:**

Despite COVID-19, the Group’s shipyard business remains resilient, as shipyard revenue grew to a 4-year high of S\$26.0m in FY2021 and its yard had an average utilisation of 80% towards the end of FY2021. This is driven by strong demand for ship repairs from:

- A wider customer base (as the Group expanded its customer base beyond offshore vessels to include more merchant vessels such as containerships, bulkers and tankers),
- Increased market share (Shipyard services in the Group’s Batam shipyard are priced about 15-20% lower than shipyards in Singapore), and
- The implementation of the Ballast Water Management System by the IMO Marine Environmental Protection Committee (MEPC).

In addition, the Group also recorded shipbuilding revenue in FY2021 with the construction of 2 smart fish farms.

The Group was able to achieve the above results as the management had the COVID-19 situation under control and strict rules were implemented within the shipyard premises. For example, the shipyard had almost 100% of its employees vaccinated and staff are required to conduct frequent ART test to ensure a safe working environment without major disruptions.

The extension of the Group's shipyard dry dock 1 is expected to be completed by 2QFY2022, which will increase the Group's capacity for ship repair jobs by up to 20%.

However, the Group's shipyard segment is not limited only to the dry dock extension program. On 5 Jan 2022, the Group announced that its shipyard services have now expanded to encompass green ship recycling, helping ship owners to recycle their end-of-life ships in a safe and environmentally sound manner. Green ship recycling is done on an unused area of the shipyard, and hence, is not restricted to the utilisation of the Group's dry docks.

### **SIAS Query**

1(iv) Segment results (shipbuilding and repair services): Even as revenue increased from \$17.2 million in FY2020 to \$26.0 million in FY2021, the reportable segment results from the shipbuilding and repair services segment declined from a loss of \$(1.08) million to \$(6.64) million in FY2021 (pages 103 and 104 – Note 31: Segment information). What are the reasons for the larger segment loss in FY2021 despite the higher revenue (and the shipyard operating near full capacity)?

### **Company's Response:**

A larger amount of losses was recognised for the Shipbuilding and Repair Services Segment mainly due to the writing off of an intercompany debt amounting to S\$7.86 million in FY2021. Excluding the one-off write-off, the Shipbuilding and Repair Services Segment would have recognised a profit of \$1.22 million in FY2021.

### **SIAS Query**

1(v) Offshore windfarm: How is the group acquiring new customers in the offshore windfarm segment? How does the group differentiate itself from competitors given that there is still idle capacity in the market fighting for the same jobs?

### **Company's Response:**

Prior to entering the offshore windfarm market in Taiwan, the Group has been doing extensive research and establishing business connections in the market over the last few years. The Group has established partnerships with local players to secure new customers in the segment. In addition, the Group is also planning to reflag up to 4 of its vessels into Taiwan, which will give us an edge in securing more windfarm projects, given that Taiwanese contractors prefer Taiwanese flagged vessels to those that are foreign flagged. The Group has recently incorporated a joint venture entity in Taiwan with our local partners to strengthen our footprint and highlight our commitment to the Taiwan offshore windfarm segment.

The Group's vessels serving the offshore windfarm market in Taiwan have competitive advantages over its competitors due to restrictions implemented by the local authorities. For vessels serving the Taiwan market, the age of the vessels employed has to be less than 12 years old and must be built outside China. These 2 requirements have significantly limited the pool of deployable OSVs for the market. MPM's OSVs have an average age of 7 years old and have mostly been built in our own shipyard in Batam.

**SIAS Query**

1(vi) Smart floating fish farms: Have the two units of smart floating fish farms been delivered to the customer? Is the group working with the customer to secure new orders?

**Company's Response:**

One of the smart fish farms has been delivered, while the other is expected to be delivered in 2QFY2022.

The Group is always on the lookout for new projects if and when opportunities arise.

**SIAS Query**

1(vii) Trade receivables: Recoverability of trade receivables was flagged as a key audit matter, with the group having made an allowance of \$4.9 million for expected credit losses for both FY2021 and FY2020 (page 40 – Independent auditor's report). Furthermore, 42.8% (FY2020: 60.2%) of the gross trade receivables have been more than 3 months past due (page 118). Please update shareholders the on-the-ground sentiment as well as operational conditions in the shipping industry. How confident is management in recovering the aged receivables? Is management also looking to tighten its credit policies?

**Company's Response:**

The management believes the Group has a relatively strong credit policy in place as seen from our recent financial track record where minimum provisions were made to our Trade Receivables balances. For example, all new customers are required to undergo a stringent KYC process, review of outstanding balances are done periodically, and reminders are sent promptly whenever there are unpaid, overdue invoices. For our shipyard specifically, the Group may even retain the client's vessel in the yard until repayment has been made.

**SIAS Query**

2. On 5 January 2022, the company announced that its subsidiary, P.T. Marcopolo Shipyard, has ventured into green ship recycling. The group will help ship owners recycle their end-of-life ships in a safe and environmentally sound manner.

As announced by the company, the group has also become the first shipyard in Indonesia to be certified and awarded the ISO 30000:2009 certificate which is recognised globally and often a prerequisite by ship owners

looking to comply with the new EU regulation on ship recycling and the International Maritime Organization (IMO) Hong Kong Convention.

(i) Will the new business of green ship recycling require the group to make substantial and additional capital investment into the infrastructure? How much will the group be investing into this new business and how will the group be able to fund this?

**Company's Response:**

The Group does not expect any significant capital investment for green ship recycling, which will tap on the expertise of the Group's existing shipyard capabilities. The Group is also conducting training programmes to ensure we comply with requirements of the ISO standards.

**SIAS Query**

2(ii) What is management's experience in green ship recycling?

**Company's Response:**

Green ship recycling involves the proper dismantling and recycling of an old vessel. On 5 Jan 2022, the Group announced that its shipyard has become the first shipyard in Indonesia to be certified and awarded ISO 30000:2009 by ABS Quality Evaluations (QE). This is a very important certification that is recognised globally, and is a testament to the Group's expertise in proper green ship recycling.

**SIAS Query**

2(iii) Can management help shareholders understand the addressable market of the new business of green ship recycling?

**Company's Response:**

The Group's shipyard will mainly target the green ship recycling of small- to mid-sized vessels for small vessel owners in Southeast Asia and the region. Currently, Southeast Asian countries own around 7,000 vessels, representing over 180 million DWT. Potentially, the market for ship recycling in the region offers significant growth, with about a hundred vessels annually on average carrying out ship decommissioning in a sustainable, eco-friendly manner, driven by a changing end-user market.

In addition, there are not many shipyards in Southeast Asia that can do green ship recycling, giving Marco Polo a competitive edge over its peers in recycling offshore vessels that are either operating or stacked in this region. Meanwhile, stricter age requirements by end charterers are also limiting the competitiveness of older OSV assets.

### **SIAS Query**

2(iv) How cost-competitive is the group in this? How will the group be acquiring customers?

### **Company's Response:**

The ISO certification by ABS Quality Evaluations is our key advantage, given rising pressure on ship owners to be more environmentally friendly. The Group's shipyard will mainly target the recycling of small to mid-sized vessels. For small vessel owners in Asia, it may make more economical sense for vessel owners to recycle at Marco Polo's Indonesia yard vs India or Turkey, due to the transportation costs involved in towing or mobilising the vessels to the respective yards. In addition, there are not many shipyards in India or even Southeast Asia that can do green ship recycling, which gives Marco Polo a competitive edge over its peers.

### **SIAS Query**

3. At the EGM scheduled to be held on 27 January 2022 at 11.00 am or following the conclusion of the AGM, shareholders are asked to approve the group's participation in the rights issue to be undertaken by PT Pelayaran Nasional Bina Buana Raya Tbk ("PT BBR") which constitutes a major transaction under Chapter 10 of the Listing manual of SGX-ST.

The proposed subscription in PT BBR, when compared to the company's market capitalisation, will range from 28.9% to 35.0% depending on the subscription amounts by other PT BBR shareholders.

(i) Can management clarify if the timeline for PT BBR has been finalised barring unforeseen circumstances? The indicative timeline for the PT BBR Rights issue can be found on page 13 of the EGM circular.

### **Company's Response:**

Based on the latest update that we have from PT BBR, the Financial Services Authority (OJK) of Indonesia is still reviewing the submission documents made by PT BBR, and the Company is only able to finalise the timeline when the relevant approval is given to PT BBR.

### **SIAS Query**

3(ii) If so, when does management expect the debt conversion to be completed? For the avoidance of doubt, can management clarify if the corporate actions by PT BBR (including the debt conversion relating to the current receivable for the purchase of MP Perkasa and Pride Vessel) will improve the company's cash flow/working capital?

### **Company's Response:**

The debt conversion will be completed upon completion of the PT BBR rights exercise. The Group will subscribe to a maximum of US\$17 million in PT BBR, of which US\$14 million will be funded from the conversion of existing

debt due from PT BBR to the Group. The Group will only be injecting US\$3 million for the remaining subscription of the rights.

The subscription of the rights is expected to be funded from internal resources. Following the exercise, the Group expects to consolidate the results of PT BBR (as the Group's shareholding in PT BBR will increase to a maximum of 72.5% from the current 34.8%). This is expected to improve cash flow for the Group, as PT BBR has been generating positive operating cash flow over the last 3 financial years.

**SIAS Query**

3(iii) (Going forward, are there plans to allocate more capital or inject more vessels into PT BBR? PT BBR is said to be strategically important to the company as it is the gateway through which the company is able to penetrate the Indonesian market and maintain a stronghold in the provision of ship chartering services.

**Company's Response:**

Save for MP Endurance, which PT BBR will be acquiring from the Group upon the completion of the PT BBR Rights Issue, there are no current plans to inject more capital or vessels into PT BBR. However, PT BBR has a plan to expand its fleet of vessels and presence in Indonesia over the longer term. Following the debt restructuring in 2020, most of PT BBR's assets have already been written down and most of its loans have been extinguished. PT BBR has generated positive operating cash flow over the last 3 financial years and is expected to be self-sufficient.

**SIAS Query**

3(iv) What changes will the group be making to the management and operations of PT BBR following the completion of the rights issue?

**Company's Response:**

The Group intends to streamline the operations and management of PT BBR in order to optimise the business process in order to improve its efficiency.

**BY ORDER OF THE BOARD**

Sean Lee Yun Feng  
Chief Executive Officer  
26 January 2022