KIM HENG OFFSHORE & MARINE HOLDINGS LIMITED

BUILDING RESILIENCE

EXPANDING OUR HORIZONS

An Established Integrated Offshore & Marine Value Chain Services Provider

ANNUAL REPORT 2017

WE, THINK BETTER, DO BETTER, BE BETTER.

Contents

Company Overview

With 50 years of experience, Kim Heng Offshore & Marine Holdings Limited ("Kim Heng") and its subsidiaries (collectively, the "Group") is an established integrated offshore and marine value chain services provider. Strategically based in Singapore, the Group offers a one-stop comprehensive range of products and services that caters to different stages of offshore oil and gas projects from oil exploration to field development and oil production.

The Group's operations are primarily located in Singapore, with two shipyards strategically located at 9 Pandan Crescent and 48 Penjuru Road. The shipyards, with a combined waterfront of 205 metres, enable Kim Heng to carry out a multitude of services, including offshore rig repair, maintenance and refurbishment, fabrication, vessel newbuilding as well as painting and blasting works. As a one stop solutions provider, the Group has a fleet of quality cranes which consists of crawler cranes, lorry cranes and mobile cranes for both sale and rent. It also provides other services such as maintenance, trading and sale of heavy equipment.

Kim Heng has built its brand over the years and has established relationships with world renowned customers from over 25 countries in the regions of Southeast Asia, USA, Latin America, Australasia, Middle East and Europe.

Offshore Rig Services

- Construction and fabrication works of sections or components of drilling rigs & drillships
- Installation of offshore production modules and systems
- Afloat repairs, maintenance and refurbishment of offshore rigs, platforms & vessels
- Supply of offshore drilling and production equipment
- Marine salvage and oil spill response

Supply Chain Management

- Provision of logistics, general shipping and crew management
- Provision of offshore supply vessels and heavy-lift equipment

Vessel Sales & Newbuild

- Purchase and refurbishment of vessels for onselling
- Newbuilding of vessels

Heavy Equipment Sale and Rental

- Leasing, sale, maintenance, import and export of heavy equipment
- Wide range of equipment and machineries including crawler, lorry and mobile cranes

Financial **Highlights**

Operating Results

(S$'000)	FY2017	FY2016
Revenue	27,438	31,364
Gross profit	5,462	8,403
EBITDA	(6,300)	(11,944)
Net Cash (used in) from Operating Activities	(5,642)	2,006
Net Loss	(15,312)	(17,828)

Financial Position

(S$'000)	FY2017	FY2016
Total Assets	125,558	136,980
Current Assets	25,058	28,549
Total Liabilities	49,313	45,634
Current Liabilities	20,948	17,795
Total Equity	76,245	91,346
Cash & Cash Equivalents	4,405	20,089
Debt to Equity Ratio *	0.39	0.27

Performance Indicators

	FY2017	FY2016
Net Asset Value per Share (cents) **	10.8***	12.9***
Loss per Share (cents) ****	-2.2	-2.5
Return on Equity	-20%	-20%
Return on Total Assets	-12%	-13%
Return on Capital Employed	-13%	-15%

* *Defined as the sum of indebtedness to financial institutions divided by total equity*

** *Net asset value per ordinary share is calculated based on 709,050,800 shares and 710,000,000 shares in issue as at 31 December 2017 and 31 December 2016 respectively*

*** *Based on revaluation of land and buildings*

**** *Loss per share is calculated based on weighted average number of shares outstanding of 709,880,291 shares and 710,000,000 shares for FY2017 and 2016 respectively*

Company **Milestones**

2017

- Kim Heng's first ownership of AHTS vessels
- Joint venture between KH Mazu Offshore & Marine Sdn. Bhd. and RUHM Marine Sdn. Bhd. Incorporation of subsidiary in Malaysia called RUHM Mazu Sdn Bhd on 9th January 2018

2016

- Completion of Kim Heng's headquarters consisting of a 4-storey office cum warehouse building at 48 Penjuru Road Singapore

2015

- Incorporation of Kim Heng Heavy Equipment Pte Ltd to extend into sale, rental, leasing, repair and maintenance of industrial machinery and equipment
- Incorporation of KH Mazu Offshore & Marine Sdn. Bhd. in Malaysia to undertake repair and docking of vessels, supply chain and crew management and heavy-lift equipment rental

2014

- Listed on the Catalist Board of the Singapore Exchange Securities Trading Limited
- Planned expansion of yard facilities, vessel fleet and business & service offerings

2013

- Completed first re-activation and refurbishment of a jack-up rig, Randoplh Yost at Pandan Crescent Yard

2010

- Constructed and delivered the second accommodation and pipelay barge McDermott LB32

2009

- Constructed and delivered the first accommodation and pipelay barge Aussie 1

2008

- Completed first retrofitting of a pipelay barge, Jascon 25

2006

- Addition of Kim Heng Shipbuilding & Engineering Pte Ltd to undertake shipbuilding projects
- Increased rig fabrication activities by fabricating blocks for the construction of semi-submersible rigs, jack-up rigs and drilling rigs

2001

- Acquired Darwin Offshore Logistics Base Pty Ltd ("DOLB") in Darwin, Australia to provide marine transportation and offshore management and support services for oil and gas exploration, development and production activities in the Australian market
- Sold DOLB in 2015

1997

- Incorporation of Kim Heng Tubulars Pte Ltd to expand into the rental and trading of oil field equipment and specialty steel tubular products to offshore O&G customers

1996

- Embarked on rig fabrication activities with a project awarded by Transocean for fabrication and modification works to be carried out on a semi-submersible rig

1992

- Changed name to Kim Heng Marine & Oilfield Pte Ltd to better reflect the offshore O&G and marine industries that it serves

1988

- Ventured into repair and maintenance activities for offshore oil rigs at anchorage, including fabrication, installation and painting of steel structures and the provision of specialised oil field equipment

1987

- Engaged in supply base management, carried out loading and unloading activities for offshore vessels, rig agency work and storage and maintenance of equipment related to oil and gas activities

1986

- Kim Heng Maritime Pte Ltd was set up to provide offshore maritime transportation services

1982

- Expanded into repair and maintenance in the marine offshore industry

1978

- Our Group corporatized itself through the incorporation of Kim Heng Marine Pte Ltd

1968

- Kim Heng Tugboat Company is founded by Mr Tan Eng Hai

Chairman's **Message**

Leveraging our 50 years of experience, we prudently invest when the industry is weak and asset prices are distressed. We are looking to expand the fleet as this will give us the economies of scale to offer full scale solutions to bring long term sustainable growth.

THOMAS TAN KENG SIONG
Executive Chairman
& Chief Executive Officer

Dear Shareholders,

On behalf of the Board of Directors ("Board") of Kim Heng Offshore & Marine Holdings Limited ("Kim Heng") and its subsidiaries collectively the "Group"), I present to you our annual report for the financial year ended 31st December 2017 ("2017").

In 2017, the global oil industry continued to suffer from the impact of the oil price downturn which started in 2014, despite oil prices rising to above US$60 per barrel during the year. Increasing shale oil exports from the USA and oversupply of crude oil by Iran and Saudi Arabia to increase market share continues to depress oil prices and affect overall industry services demand. This has led to the cancellation of projects by many oil companies, and a reduction in spending on uneconomical exploration and development projects. In turn, this resulted in drilling rigs, offshore vessels, shipyards and service companies being idled. Poor operating conditions persisted and worsened as companies struggled to refinance debt and obtain fresh borrowings from the banks.

Despite cost cutting measures and prudent spending in 2017, the extended weakness of our industry caused revenue from the Group's Offshore Rig Services and Supply Chain Management ("ORS-SCM") segment to decline year on year (Y-O-Y) by 11.1% to $27.4 million. No revenue was generated from the Group's Vessel Sales and New Build ("VS-NB") segment due to lack of new projects undertaken during the year.

In 2017, the Group reported a net loss of S$15.3 million compared to FY2016's net loss of S$17.8 million. This included the S$3.6 million one off non-cash impairment loss due to the write-down of some assets. Excluding the assets impairment loss, the Group would have reported a net loss of S$11.7 million and a negative EBITDA of S$2.7 million.

Industry Outlook Ahead

As we look ahead in 2018, the rising oil price, which has stabilised at around US$60 per barrel is an encouraging sign to the industry. We expect oil exploration and development spending by oil majors to slowly improve over the coming months, driving demand back to a more meaningful level for the offshore drilling rigs. This will support rig reactivation, although the environment is still extremely challenging and the jobs available are mostly on short term basis. However, the market is showing signs of improvement in 2018 with increased tendering activities, and as a result we are looking at different areas of the supply chain to generate additional revenue.

In January 2014, after raising S$40 million from our IPO, we adopted a prudent approach to preserve our cash reserves when many of our peers were investing aggressively into assets at overly inflated prices. We avoided a herd mentality and did not follow the crowd with overpriced asset purchases ahead of the downturn. We maintained patience and refrained from chasing high asset prices with our capital, and instead built resilience across our business by searching for strategic niche businesses sheltered from the worst of the downturn.

In July 2015, the oil industry was faced with uncertainty not seen in many years, marked by a continuous decline in oil prices that threaten the viability of many offshore oil projects.

The sharp drop in the oil prices, resulting in many projects cancellations, had led to many companies being caught in the storm and unable to fulfil their financial obligations throughout 2016 and 2017.

Chairman's **Message**

Many companies who used debt to fuel rapid growth during the oil boom are now facing grave financial pressure. These companies are faced with overleveraging of their offshore assets. Many of these companies will not be able to maintain solvency while waiting for an industry recovery given that the current industry's vessel charter rates are very depressed that they cannot cover for operating costs and asset valuations have dropped as much as 90% from past purchase prices due to excess capacity.

The financial troubles for many weaker industry players and the resulting insolvencies can help reset the market, consolidating the number of industry competitors and weeding out highly speculative operators who have contributed to overcapacity.

We have avoided the worst of the crisis, having learned through many previous crises to guard against overleveraging, and to remain prudent with sufficient cash on hand to sustain through the downturn.

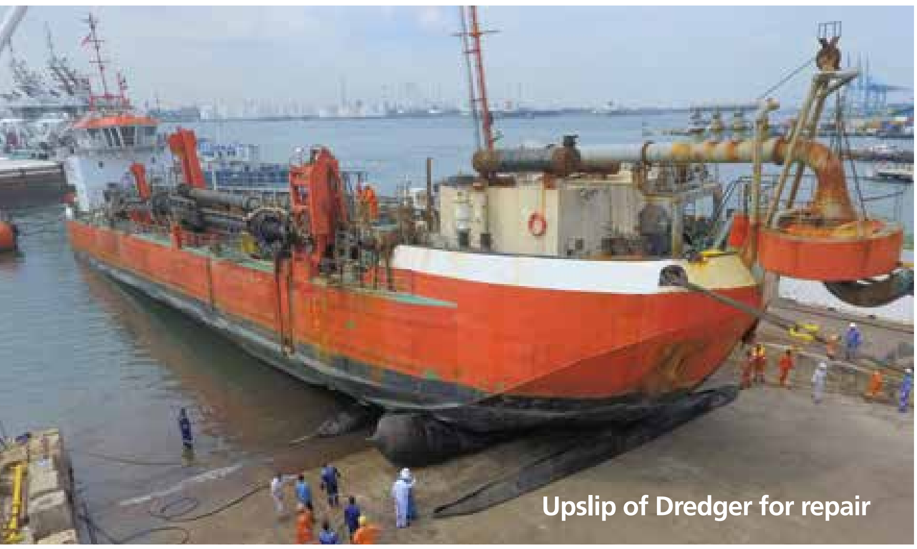
Future Growth Strategy

Despite continued industry uncertainty, Kim Heng remains focused on navigating ourselves through the downturn. We also continue develop capabilities for long term growth.

Leveraging our 50 years of experience managing industry cycles through booms and busts, we continue to focus on commercially viable business that can sustain during the downturn and thrive in an upturn. By prudently investing when the industry is weak and asset prices are distressed, we aim to establish a strong position.

Firstly, in July 2017 we were able to secure three (3) anchor handling tugs of 10,800 horsepower and another 6,000 horsepower in February 2018 at distressed prices. These vessels will give us good potential to earn high returns in the future. These purchases will help strengthen our market position and operating capabilities ahead of an eventual upturn in the oil industry. With our operating capabilities with these offshore vessels, Kim Heng was able to quickly charter these 3 vessels out on spot charters to perform rig towage for some oil majors in the region.

While in the past we only chartered-in the vessels, we now see an opportunity to be an owner and operator of offshore vessels where our entry price is very low. We are looking to expand our fleet prudently as more distressed opportunities emerge, as this will give us economies of scale to offer comprehensive solutions with our fleet and enjoy long-term cost advantages versus many of our peers.



Upslip of Dredger for repair

Secondly, the Group's two (2) waterfront shipyards in Singapore remain valuable assets that will enable us to swiftly capture a wide range of vessel and rig activation and maintenance service opportunities during an upturn.

Thirdly, we are diversifying into the defence business and other marine activities to build resilience across our business, sheltered from the cyclicality of the energy industry.

We will be constantly looking for new growth, setting new goals and strategies. We will capitalised on our knowledge and skills, to move fast to seize new opportunities before conditions change.

Words of Appreciation & Proposed Dividends

On behalf of the Board, I would like to express my sincere thanks to our hardworking team of management, staff, and employees.

I would also like to thank our partners, suppliers, customers and business associates for their faith in us and constant support through the years. I hope to continue to build stronger relationships with all of you during these challenging times.

Also, I wish to thank our key institutional investor, Credence Partners, for their vote of confidence and continuous support through the years.

In order to reward our shareholders for their loyalty & support, the Board has recommended a final dividend of 0.07 Singapore cents per share, subject to shareholders' approval at the forthcoming annual general meeting.

We welcome your thoughts and support as we move forward into the year of Jubilee and are hopeful for a better year ahead for Kim Heng in 2018!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We built resilience across our Group by searching for strategic niche businesses.

Board Of **Directors**

1. Thomas Tan
Executive Chairman & CEO

Thomas Tan is the Executive Chairman and CEO of our Company. He currently serves as a director for all the companies within the Group. He was appointed to the Board on 20 May 2013. He joined the Group in 1978 as an apprentice and was involved in the operations department of our Company in the chartering of vessels, engaging in loading of steel structures, fabrication/installation of modules as well as in the ship supplies and chandelling business. Thomas Tan rose through the ranks over the years to head the marketing and operations department. From 1998 until present, Thomas Tan has been responsible for overall operations, sales and marketing activities, customer service, securing new projects and negotiating contracts for the Group.

2. Tan Chow Boon
Non-Executive Director

Tan Chow Boon is a Non-Executive Director of Kim Heng and was appointed to the Board on 26 December 2013.

He is a Managing Partner of Credence Partners Pte. Ltd., a private equity fund manager providing growth stage capital and expertise to SMEs within the Manufacturing, Information Communication Technology, Services, Logistics and Consumer sectors. Credence was founded by the Partners – Koh Boon Hwee, Tan Chow Boon and Seow Kiat Wang in 2006.

Chow Boon began his career in 1984 at Hewlett-Packard and in 1991, co-founded an EMS company with the Partners, which was subsequently listed as Omni Industries in 1997. The group grew to a size of approximately US$1 billion in revenue before being acquired by Celestica Inc in 2001.

He obtained his Bachelor's Degree in Mechanical Engineering from the National University of Singapore and his Executive MBA from the Golden Gate University, California.

3. Ho Boon Chuan Wilson
Lead Independent Director

Ho Boon Chuan Wilson is the Lead Independent Director of our Company and was appointed to the Board on 26 December 2013. He is currently Managing Director, Asia of Westcon-Comstor, a value-added global technology distributor of category-leading solutions in Security, Collaboration, Networking and Data Center, where he is responsible for managing the business across 11 countries in Asia. His experiences over the last 20 plus years include working in the capital markets group of DBS Bank, holding the post of chief financial officer of a SGX-Main Board listed company and building and managing a regional IT distribution group.

Ho Boon Chuan Wilson graduated from the Nanyang Technological University with a Bachelor of Accountancy (Hons) degree in 1994. He is a Chartered Accountant, Singapore, and a Chartered Financial Analyst.

4. Ong Sie Hou Raymond
Independent Director

Ong Sie Hou Raymond is an Independent Director of our Company and was appointed to the Board on 26 December 2013. He is currently a director of CTLC Law Corporation, a firm of advocates and solicitors in Singapore. He was previously a partner of Rajah & Tann of which he has been with from May 2002 to March 2010. From 1998 to 2001, he was an associate lawyer at Collin Ng & Partners. Prior to that, he was practising at Joseph Tan Jude Benny & Scott between 1997 and 1998 and Chong Yeo & Partners between 1996 and 1997. His main area of practice is in litigation and international arbitration in commercial, banking, transportation and shipping matters.

Ong Sie Hou Raymond graduated from the National University of Singapore in 1996 with a Bachelor of Laws (Honours) degree. He was admitted as an Advocate & Solicitor to the Supreme Court of the Republic of Singapore in 1996.

Management Team

Yeo Seh Hong
Chief Operating Officer

Ms Yeo Seh Hong is the Chief Operating Officer of the Group. She was appointed as Executive Director to the Board on 26 December 2013 but has stepped down during the year on 12 December 2017. She was previously an inspection secretary with AMF Tuboscope Inc. from 1978 to 1985 where she was in charge of the preparation of customer's inspection reports and co-ordinating with the inspection manager on daily job assignments and assisting in sales enquiries. From 1985 to 1988, she was an operations co-ordinator/foreman with T.D. Inspection Pte Ltd (formerly known as AMF Tuboscope Inc.) where she coordinated field inspections on offshore rigs and land rigs and oversaw the Southeast Asia inspection division. She first began her career with the Group in 1988 and has, over the years, held various positions as materials manager, business development manager and general manager. She is currently responsible for overall operations, sales and marketing of products and services, developing and reviewing product specifications to meet market demand, preparing and submission of major tenders and commercial proposals for various scopes of services and overseeing the Group's activities to ensure continued compliance with safety requirements and ISO standards.

Ms Yeo Seh Hong completed her formal education at Sekolah Menegah Perempuan Jalan Ipoh Kuala Lumpur in 1974 and obtained her Secretarius Certificate from ATT Singapore in 1976.

Tan Keng Hoe Melvin
Commercial and Operations Director

Mr Tan Keng Hoe Melvin serves as the Commercial and Operations Director of the Group and is responsible for overseeing the business and commercial aspects of the Group. His first stint with the Group was from 1987 to 1997 where he last held the position of Manager of the Marine division. Mr Tan Keng Hoe Melvin proceeded to take on various logistical roles in leading companies in the Oil & Gas industry before rejoining the Group in May 2010. He holds a diploma in Business Management from the University of Bradford.

Michael Law
Chief Financial Officer

Mr Michael Law serves as the Group's Chief Financial Officer and is responsible for overseeing the financial and management accounting, compliance and taxation matters of the Company. He joined the Group in October 2016, bringing with him more than 20 years of experience in accountancy, auditing and finance. Previously, he had held financial management positions at various multinational companies and SMEs. He had also served as the group financial controller and chief financial officer of companies listed on the mainboard of SGX-ST. Mr Law obtained his Bachelor of Commerce from The Australian National University in 1991. He is a member of the Institute of Singapore Chartered Accountants and CPA Australia.

Heng Aik Soon
General Manager for Yard

Mr Heng Aik Soon serves as the General Manager for Yard and oversees the Group's offshore support services, vessel construction and yard management. He joined the Group in September 1997 as a Technical Manager and rose to the ranks of General Manager for Yard. He has more than 17 years of experience under his belt in the field of marine engineering, specialising in shipbuilding and vessel repair, and holds a Master of Diploma in Marine Engineering from Singapore Polytechnic.

Tan Wen Hao Justin Anderson
General Manager

Mr Justin Tan was appointed as a General Manager of the Company in October 2015. He joined the Company in August 2014, spearheading the corporate and business development segments of the Company and was involved in the day to day operations of the Group. He is currently under the tutelage of the senior management of the Group and is involved in handling the rig repair and maintenance operations, corporate and business development; and pursuing contracts for charter, new build and sale of vessels. He holds a Bachelor of Arts (Honours) degree in Business Economics from the University of Exeter.

Expanding Our Horizons

We are now owner and operator of offshore vessels.

Operations & Financial Review

Offshore Rig Services & Supply Chain Management

The Offshore Rig Services and Supply Chain Management ("ORS-SCM") segment accounted for 100% of the Group's revenue for the financial year ended 31 December 2017 ("FY2017").

The ORS-SCM revenue fell by 11.1% year-on-year ("YoY") to S$27.4 million for FY2017 due to the extended weakness throughout the global oil industry even though oil prices have stabilised above US$50 per barrel. The contraction in oil majors spending and financial credit crisis in the oil industry has led to many project cancellations and lower activity for the maintenance of rigs and services.

The Group expects industry conditions to improve once the oil companies increase spending to drive demand for the offshore vessel and supply chain services over the financial year ending 31 December 2018 ("FY2018") as indicators show signs of increased activity and oil price stabilized.

During the financial year, the Group has expanded into the ownership of offshore vessels by acquiring three (3) anchor handling tugs service (AHTS) of 10,800 break horsepower (bhp). Through the acquisition of these offshore vessels, the Company seek to improve its vessel operating capabilities by offering full scale offshore solutions in rig towage and other marine activities. Its three (3) newly acquired AHTS vessels namely, Bridgewater 130, 131 and 132, have been awarded spot and short term charters of rig towage and other types of vessel towage.

As we navigate into FY2018, the Management understands the importance of seizing any opportunity to ride on the recovery of the oil and gas sector, should eventual market upturn occur. In the midst, we remain focused on our cost cutting measures where the Company's continual efforts have been evident by a reduction in Selling, General and Administration ("SG&A") expenses to approximately 11.5 % lower year on year (YoY).

Vessel Sales & Newbuild

The Vessel Sales and Newbuild ("VS-NB") segment did not contribute to the Group's revenue for FY2017. VS-NB revenue decreased by S$485,000 in FY2017 due to the lack of new build projects undertaken during the year. This decrease was in-line with the broader downturn of the sector.

Financial Performance Review

In FY2017, the Group's financial performance faced several challenges which put a strain on the business including sluggish demand, and a competitive offshore marine sector. Total revenue fell 12.5% YoY to S$27.4 million in FY2017 from S$31.4 million the year before. Reduced demand for rig maintenance and related goods and services resulted in

lower revenue from the ORS-SCM segment, while the VS-NB segment did not generate any revenue as no new build projects were undertaken in FY2017.

Singapore currently remains the largest market for Kim Heng, contributing S$13.8 million of total revenue (approximately 50.2% of total revenue).

In FY2017, cost of sales fell by 4.3% to S$22.0 million. This decline was due to the lower revenue generated. FY2017 gross profit also declined by 35.0% YoY to S$5.5 million from S$8.4 million in FY2016. Consequently, gross profit margins contracted to 20% from 27% in FY2016 due to revenue falling further than cost of sales.

Notably, despite the fall in revenue, Kim Heng continued to make good progress on the operating level. Cost cutting initiatives bore fruit during the year with SG&A expenses falling 11.5% YoY.

In FY2017, the Group reported a net loss of S$15.3 million compared to FY2016's net loss of S$17.8 million. This included a S$3.6 million one off non-cash impairment loss due to Kim Heng writing down the value of some assets. Excluding this one-off impairment loss, the Group would have reported a net loss of S$11.7 million.

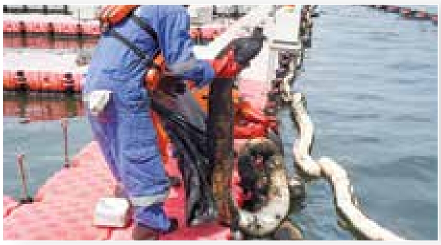
As of 31 December 2017, the Group's total assets stood at S$125.6 million, representing a 8.3% decrease YoY. This was primarily due to a decrease of S$15.7 million in cash and cash equivalents. The Group's total liabilities increased by 8.1% YoY to S$49.3 million mainly due to new loans and borrowings obtained for the purchase of property, plant and equipment.

Cashflow, Cash Position, and Outlook

In total, net cash used in operating activities amounted to S$5.6 million in FY2017. As of 31 December 2017, the Group's cash and cash equivalents stood at S$4.4 million.

Moving forward, the Group will be continually looking for new growth opportunities, set new goals and strategies, while remaining prudent in managing its cash flow and cautious against overleveraging.

Corporate **Social Responsibility**



Quality Assurance

Aim to Achieve Zero Accident Environment

Client Satisfaction

Corporate Social Responsibility ("CSR") is an important part of the Group's business philosophy, and is thus a key consideration in the Group's daily operations.

When doing business, be it launching a new service or working with partners, the Group always considers the socio-economic aspect, as well as the environmental impact that any of our actions may have on the broader community. It is the Group's view that a socially responsible business is a business that is valued by the community and all its stakeholders.

Following this mindset, the Group adheres to the best-in-class health & safety standards to ensure that the necessary safety measures are implemented across the organization. This is done by appointing key safety and compliance officers across the different levels of the organization, as well as outlining the key requirements and attainment of relevant certifications.

On top of our own stringent risk mitigation measures, comprehensive risk assessments are also carried out by external bodies on a regular basis to ensure that all areas of safety are in check. Doing so allows us to remain confident that we have reduced the risks of accidents, injuries, or illnesses to our employees and the local community.

Through all this, the Group actively reiterates to all its stakeholders the importance of environmental conservation. The Group actively monitors operations and processes to avoid potential sources of waste and leakages. This process is not only good for the environment and local community, but also helps our own bottom line by improving our operational efficiencies.

Moving forward, the Group will continue to hold itself accountable to the highest standards of quality and safety. The Group fervently believes in the importance of having strong relationships in the community it operates in, and will continue to strive to be a model corporate citizen.

Corporate Structure

- KIM HENG OFFSHORE & MARINE HOLDINGS LIMITED
  - KIM HENG OFFSHORE & MARINE PTE. LTD.
    - ALPINE PROGRESS SHIPPING PTE. LTD.
    - KIM HENG MARITIME PTE LTD
    - KIM HENG MARINE & OILFIELD PTE LTD
      - KIM HENG HEAVY EQUIPMENT PTE. LTD.
      - BRIDGEWATER 130 PTE. LTD.
      - BRIDGEWATER 131 PTE. LTD.
      - BRIDGEWATER 132 PTE. LTD.
    - KIM HENG SHIPBUILDING & ENGINEERING PTE. LTD.
    - KIM HENG TUBULARS PTE LTD
    - KH MAZU OFFSHORE & MARINE SDN BHD
      - RUHM MAZU SDN BHD*

* **RUHM Mazu Sdn. Bhd.** is owned 49% by **KH Mazu Offshore & Marine Sdn Bhd** and 51% by **RUHM Marine Sdn Bhd**. **RUHM Mazu Sdn. Bhd.** is incorporated on 9 January 2018

Corporate **Information**

Board of Directors
Tan Keng Siong Thomas- Executive Chairman and CEO
Tan Chow Boon- Non-Executive Director
Ho Boon Chuan Wilson- Lead Independent Director
Ong Sie Hou Raymond- Independent Director

Audit & Risk Committee
Ho Boon Chuan Wilson- Chairman
Ong Sie Hou Raymond
Tan Chow Boon

Remuneration Committee
Ong Sie Hou Raymond- Chairman
Ho Boon Chuan Wilson
Tan Chow Boon

Nominating Committee
Ong Sie Hou Raymond- Chairman
Ho Boon Chuan Wilson
Tan Chow Boon

Registered Office Address
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Telephone: (65) 6777 9990
Fax: (65) 6778 9990
Website: www.kimheng.com.sg

Company Registration Number
201311482K

Company Secretaries
Tan Wee Sin, ACIS
Joanna Lim Lan Sim, ACIS

Principal Bankers
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80, Raffles Place Singapore 048624

Malayan Banking Berhad
Maybank Tower
2 Battery Road Singapore 049907

Sing Investments & Finance Limited
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SIF Building Singapore 068899

Auditors
KPMG LLP
Partner in charge: Lee Chin Siang Barry
(Since financial year ended 31 December 2017)
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Share Registrar
Tricor Barbinder Share Registration Services
80 Robinson Road #02-00 Singapore 068898

Investor Relations Contact
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Email: Jocelyn.tan@kimheng.com.sg

Sponsor
SAC Capital Private Limited
1 Robinson Road #21-02, AIA Tower Singapore 048542

Corporate **Governance Report**

The Board of Directors ("**Board**" or "**Directors**") of Kim Heng Offshore & Marine Holdings Limited ("**Company**") and its subsidiaries ("**Group**") are committed to observing and maintaining high standards of corporate governance to safeguard the interests of all its stakeholders and to promote investors' confidence.

This corporate governance report ("**Report**") describes the corporate governance framework and practices of the Company with specific reference to the principles of the Code of Corporate Governance 2012 ("**Code**").

The Board confirms that the Company and Group have, for the financial year ended 31 December 2017 ("**FY2017**"), generally adhered to the principles and guidelines as set out in the Code except where there are deviations from the Code, explanations have been provided in the relevant sections below:-

Sustainability reporting

The Board recognises that one of the keys to building a sustainable business involves finding a balance between addressing its business needs and the needs of the society and the environment in which the Group operates. The Board strongly believes that to grow sustainably as a forward-looking corporate entity, the Group has to regularly reach out and work together with all its stakeholders, from its employees to the community, and be responsible stewards of its natural environment. The Company endeavours to comply with Rule 711A of the SGX-ST Listing Manual Section B: Rules of Catalist ("**Catalist Rules**") to issue its sustainability report by end 2018.

BOARD MATTERS

The Board's Conduct of its affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

The Board is primarily responsible for providing effective leadership and setting strategic directions of the Group to enhance long-term value to its shareholders and other stakeholders. The management ("**Management**") also plays a pivotal role in providing Board members with complete, adequate and timely information to assist the Board in the fulfillment of its responsibilities.

The Board oversees the business affairs of the Group and works with the Management to make objective decisions in the interest of the Group.

The Board recognises that its principal duties include:

- providing entrepreneurial leadership, setting the strategic directions and the long-term goals of the Group and ensuring that adequate resources are available to meet these objectives;
- reviewing and approving, *inter alia*, the releases of the quarterly and full year results announcements, the annual report and financial statements, material acquisitions and disposals of assets, interested person transactions, corporate strategies, annual budgets and investment proposals of the Group;
- reviewing and evaluating the adequacy and integrity of the Group's internal controls, compliance, risk management and financial report systems;
- reviewing and monitoring the Management's performance towards achieving organisational goals;

Corporate **Governance Report**

- overseeing succession planning for Management;
- setting corporate values and standards for the Group to ensure that the obligations to shareholders and other stakeholders are understood and met;
- ensuring accurate and timely reporting in communication with shareholders; and
- considering sustainability issues including environmental and social factors in the Group's strategic formulation.

The Board exercises due diligence and independent judgment in dealing with the business affairs of the Group and are obliged to act in good faith and to take objective decisions in the interest of the Group.

The Board has delegated specific responsibilities to the committees of the Board, namely, the Nominating Committee ("NC"), the Remuneration Committee ("RC") and the Audit & Risk Committee ("ARC") (collectively, the "**Board Committees**") to assist the Board in carrying out and discharging its duties and responsibilities efficiently and effectively. These Board Committees are made up of, Non-Executive Director and Independent Directors and chaired by an Independent Director. Each Board Committee has its own specific terms of reference which clearly set out its objectives, scope of duties and responsibilities, rules and regulations, and procedures governing the manner in which it operates and how decisions are to be taken.

The Board meets regularly with at least four (4) scheduled meetings on a quarterly basis held within each financial year to approve, amongst others, announcements of the Group's quarterly and full year financial results. Ad-hoc meetings are also convened to discuss and deliberate on urgent substantive matters or issues.

The Board may also have informal discussions on matters requiring urgent attention which would then be formally approved by circular resolutions in writing. The Company's Constitution provides for the Board to convene meetings via telephone conferencing and electronic means in the event where the Directors are unable to attend meetings in person.

The number of Board and Board Committee meetings held and attended by each Board member during FY2017 is set out below:-

		Board Committees		
	Board	**Audit & Risk Committee**	**Remuneration Committee**	**Nominating Committee**
No. of Meeting(s) Held	5	4	1	1
	No. of Meetings Attended			
Tan Keng Siong Thomas	5	4*	1*	1*
Yeo Seh Hong#	5	4*	1*	1*
Tan Chow Boon	5	4*	1*	1*
Ho Boon Chuan Wilson	5	4	1	1
Douglas Owen Chester#	3	3	1	1
Ong Sie Hou Raymond	5	4	1	1

**By invitation*

#Mr Douglas Owen Chester and Mdm Yeo Seh Hong resigned as Lead Independent Director and Executive Director respectively on 12 December 2017.

While the Board considers Directors' attendance at Board meetings as important, it should not be the only criterion to measure their contributions. The Board also takes into account other criteria in assessing the contributions by the Board members, including periodical reviews, the nature and extent of their guidance and expertise rendered to the committees on which they sit and the scope of advice given on various matters relating to the Group.

The Group has adopted internal guidelines setting forth matters that require the Board's approval. Matters specifically reserved for the approval by the Board are those relating to the strategy, business plan and budget of the Group, material acquisitions and disposal of assets, capital related matters including corporate or financial restructuring, investment or expenditure exceeding certain threshold limits, share issuances, interim dividend and other returns to shareholders and interested person transactions.

The Management is responsible for day-to-day operations and administration of the Group and they are accountable to the Board. Clear directions have been disseminated to the Management that such reserved matters must be approved by the Board.

The Board ensures that incoming new Directors are given comprehensive and tailored induction training on joining the Board including onsite visits, if necessary, to familiarize them with the business of the Group and the corporate governance practices of the Group upon their appointment to facilitate the effectiveness in discharging their duties. Newly appointed Directors will be provided with a formal letter setting out their duties and obligations. They will be given briefings by the Management on the business activities of the Group and its strategic directions as well as its corporate governance practices.

The Company is also responsible for arranging and funding the training of Directors. All Directors are encouraged to constantly keep abreast of developments in regulatory, legal and accounting frameworks that are of relevance to the Group through the extension of opportunities for participation in the relevant training courses, seminars and workshops.

During the year, the Board has been briefed and/or received updates on regulatory changes, industry developments, business initiatives and changes to the accounting standards.

Board Composition and Guidance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board currently comprises four (4) Directors, three (3) of whom are Non-Executive Directors, of which two (2) are independent, thereby making up half of the Board. As two (2) out of its four (4) Directors are Independent Directors, the requirement of the Code that the Independent Directors must make up at least half of the Board, where the Chairman and the CEO is the same person and is not an independent director, is satisfied.

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The current members of the Board and their membership on the Board Committees are as follows: -

Name of Director	Board Membership	Audit & Risk Committee	Nominating Committee	Remuneration Committee
Tan Keng Siong Thomas	Executive Chairman & Chief Executive Officer ("**CEO**")	–	–	–
Ho Boon Chuan Wilson	Lead Independent Director	Chairman	Member	Member
Ong Sie Hou Raymond	Independent Director	Member	Chairman	Chairman
Tan Chow Boon	Non-Executive Director	Member	Member	Member

The NC reviews the independence of the Directors as mentioned under Guideline 2.3 of the Code on an annual basis. Each of the Independent Directors has confirmed that he does not have any relationship with the Company or its related corporations, its shareholders who have an interest of at least 10% of the Company's total voting shares, or its officers, including confirming not having any relationships and circumstances set out in Guideline 2.3 of the Code, that could interfere, or be reasonably perceived to interfere, with the exercise of independent judgment in carrying out the functions as an Independent Director with a view to the best interests of the Group. The Board and the NC have reviewed, determined and confirmed the independence of the Independent Directors. The Board noted that while Mr Ong Sie Hou Raymond is currently a director in a legal firm and the legal firm rendered legal services to, and receives fees from the Group in FY2017, he is not the partner acting for the Group. The NC has reviewed and concluded that the professional fees paid to that partner (and not to Mr Ong Sie Hou Raymond) did not exceed the threshold provided in the Code and is of the view that the relationship do not affect Mr Ong Sie Hou Raymond's ability and willingness to operate independently.

None of the Independent Directors have served on the Board beyond nine (9) years from their respective date of appointment. Taking into the account the need for Board's renewal, the Board may consider developing its Board's succession plans at the appropriate time.

The Board and the NC has reviewed and is satisfied that the current composition and board size of four (4) Directors is appropriate for effective decision-making, having taken into consideration the nature and scope of the Group's operations, the requirements of the business and the need to avoid undue disruptions from changes to the composition of the Board and the Board Committees. The Board also considered that its Directors as a group provide a wide spectrum of industry skills, experience in accounting, finance, business strategies, and management experience to lead and govern the Group effectively.

The NC conducts an annual review on the Board's composition to ensure that the Board has the appropriate mix of expertise and experience. Having reviewed and considered the composition of the Board and its committees, the NC is of the view that the current Board comprises individuals whose diverse skills, experience and attributes provide for an effective functioning of the Board. The Board members also collectively possess the necessary core competencies necessary to lead and manage the Company. The profile of each of the Directors is set out on page 10 to 11 of this annual report.

To strengthen the independence of the Board, the Board has appointed Mr Ho Boon Chuan Wilson as its Lead Independent Director in place of Mr Douglas Owen Chester whom had resigned as Lead Independent Non-Executive Director on 12 December 2017. As Independent Directors make up half of the Board, there is a strong independent element on the Board and no individual or groups of individuals dominate the Board's decision-making process. The Independent Directors provide the Board with independent and objective judgment on the corporate affairs of the Group and together with the Non-Executive Director, they have the necessary experience and expertise to assist the Board in decision-making and to provide a check and balance to the Board as they are not involved in the day-to-day operations of the Company and the Group.

Whilst all the Directors share an equal responsibility for the Company's operations, the role of the Independent and Non-Executive Directors is crucial in helping to develop proposals on Company strategies and to ensure that the strategies proposed by the Management are constructively challenged, fully discussed and rigorously examined. The Independent Non-Executive Directors are also responsible for reviewing the performance of the Management in meeting agreed goals and objectives and monitoring the reporting of performance. The Independent and Non-Executive Directors communicated without the presence of the Management as and when the need arises. The Company also benefits from the Management's ready access to its Directors for guidance and exchange of views both within and outside the formal environment of the Board and Board Committees meetings.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

The Code advocates that there should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the Group's business and no one individual should represent a considerable concentration of power.

Mr Tan Keng Siong Thomas is the Chairman of the Board and CEO of the Group. As Chairman of the Board, his duties and responsibilities include:

- overseeing the smooth functioning of the Board and ensures that Directors receive complete, adequate and timely information;
- setting the agenda and ensures that adequate time is available for discussion of all agenda items, in particular strategic issues;
- promoting a culture of openness and debate at the Board;
- ensuring effective communication by the Board and the Management with shareholders;
- encouraging constructive relations within the Board and between the Board and Management;
- facilitating the effective contribution of non-executive directors, in particular; and
- promoting high standards of corporate governance.

In addition, as CEO of the Group, he assumes responsibility for running the day-to-day business of the Group; ensures implementation of policies and strategy across the Group as set by the Board; manages the Management team; and leads the development of the Group's strategic direction including identifying and assessing risks and opportunities for the growth of its business and reviewing the performance of its existing businesses.

Taking into account the current corporate structure, size, nature and scope of the Group's operations, the Board is of the view that presently it is not necessary to separate the roles of the Chairman and CEO, and there are sufficient safeguards and checks to ensure that the process of decision-making by the Board is independent, based on collective decisions without any individual or group of individuals being able to exercise considerable concentration of power or influence. For good corporate governance, Mr Ho Boon Chuan Wilson has been appointed as the Lead Independent Director of the Company. Mr Ho Boon Chuan Wilson is available to shareholders where there are concerns or issues which could not be resolved with, or inappropriate

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to be communicated to, the Executive Chairman and CEO and/or Chief Financial Officer. Where necessary, the independent directors will meet without the presence of the other directors and the Lead Independent Director will provide feedback to the Chairman after such meetings.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

The NC consists of three (3) members, majority of whom, including the NC Chairman, are Independent Directors:

Mr Ong Sie Hou Raymond*	–	Chairman
Mr Ho Boon Chuan Wilson*	–	Member
Mr Tan Chow Boon	–	Member

*Independent Director

The NC will meet at least once a year. The NC is responsible for making recommendations to the Board on all Board appointments and re-appointments. The key terms of reference of the NC include the following:

- regularly reviewing the Board structure, size and composition and making recommendations to the Board with regards to any adjustments that are deemed necessary;
- determining the process for search, nomination, selection and appointment of new Board members and assessing nominees or candidates for appointment and re-election to the Board;
- reviewing Board succession plans for Directors, in particular, the Chairman and CEO;
- making recommendations to the Board on the appointment and re-appointment of Directors (including alternate Directors, if applicable), having regard to the Director's contribution and performance and ensuring that all Directors submit themselves for re-election at regular intervals;
- identifying suitable candidates and reviewing all nominations for appointment and re-appointment to the Board;
- developing a process for assessing and evaluating the effectiveness of the Board as a whole and its Board Committees as well as the contributions of each individual Director to the effectiveness of the Board;
- deciding how the Board's performance may be evaluated and to propose objective performance criteria;
- determining on an annual basis whether a Director is independent, bearing in mind the circumstances set forth in the Code and any other salient factors;
- reviewing training and professional development programmes for the Board; and
- determining whether or not a Director is able to and has been adequately carrying out his/her duties as a Director of the Company, particularly when he/she has multiple Board representations.

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The NC has in place a formal process for the selection of new Directors and re-appointment of Directors as follows:

- the NC evaluates the balance of skills, knowledge and experience of the Board and, in light of such evaluation and in consultation with Board, prepares a description of the role and the essential and desirable competencies for a particular appointment;

- if required, the NC may engage consultants to undertake research on, or assess, candidates for new positions on the Boards;

- the NC meets with short-listed candidates to assess their suitability and ensure that the candidates are aware of the expectations; and

- the NC makes recommendations to the Board for approval.

The Board will ensure that the selected candidate is aware of the expectations and the level of commitment required. Directors are encouraged to attend relevant training programmes conducted by the Singapore Institute of Directors, Singapore Exchange Securities Trading Limited, other business and financial institutions.

The NC has considered and taken the view that it would not, at this time, be appropriate to set a limit on the number of listed directorships that a Director may hold because directors have different capabilities. The nature of the organisations in which they hold appointments and the committees on which they serve are of different complexities. Accordingly, each Director would personally determine the demands of his competing directorships and obligations and assess the number of listed directorships they could hold and serve effectively. Currently, none of the Directors hold more than two (2) directorships in other listed companies. The NC considers that the multiple board representations held presently by its Directors do not impede their respective performance in carrying out their duties to the Company.

The NC is satisfied that sufficient time and attention are being devoted by the Directors to the affairs of the Company and the Group during FY2017. The NC will continue to review from time to time, the Board representations and other principal commitments to ensure that Directors continue to meet the demands of the Group and are able to discharge their duties adequately.

Pursuant to Article 103 of the Company's Constitution, at least one-third of the Directors shall retire from office at each annual general meeting of the Company ("**AGM**") and all Directors must retire at least once every three (3) years at the AGM. In addition, the Directors, by the recommendation of NC, shall have the power to appoint any person to be the Director either to fill a casual vacancy or as an additional Director. In this respect, the NC has recommended and the Board has agreed for the following Directors who are due for retirement, pursuant to Article 103 of the Constitution of the Company, to seek re-election at the forthcoming AGM:

1. Mr Tan Chow Boon; and
2. Mr Ho Boon Chuan Wilson.

Mr Tan Chow Boon will, upon re-election as Director, remain as the member of the ARC, NC and RC.

Mr Ho Boon Chuan Wilson will, upon re-election as Director, remain as the Chairman of the ARC and a member of the NC and RC. The Board considers Mr Ho Boon Chuan Wilson to be independent for the purposes of Rule 704(7) of the SGX-ST Listing Manual Section B: Rules of Catalist ("**Catalist Rules**").

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In making the recommendations, the NC considers the overall contribution and performance of the Directors, Mr Ho Boon Chuan Wilson and Mr Tan Chow Boon, being the NC members, had abstained from deliberation in respect of his own nomination and assessment.

As at the date of this Report, there is no Independent Director being appointed as Director in the Group's principal subsidiaries. The Board will be informed of the revised Board composition of the principal subsidiaries and the appointment of Independent Director in the principal subsidiaries from time to time.

The Company does not have any alternate Director as the Board does not encourage the appointment of alternate Director unless it is an exceptional case.

The date of each of the Directors' initial reappointment, last re-election as well as the Directors' present and preceding 3 years directorships in listed companies and major appointments are set out below:

Name of Director	Date of First Appointment	Date of Last Re-election	Present Directorships and Chairmanships in Other Listed Companies	Past Directorships and Chairmanships in Other Listed Companies over the preceding three (3) years
Tan Keng Siong Thomas	20 May 2013	26 April 2017	Nil	Nil
Tan Chow Boon	26 December 2013	29 April 2015 (to be re-elected at the forthcoming AGM)	Nil	Nil
Ong Sie Hou Raymond	26 December 2013	26 April 2016	Sunvic Chemical Holdings Limited	Nil
Ho Boon Chuan Wilson	26 December 2013	29 April 2015 (to be re-elected at the forthcoming AGM)	Nil	Sysma Holdings Limited

Board Performance

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

The NC undertakes an annual evaluation of the overall effectiveness of the Board. The performance criteria for the Board evaluation include the Board commitment, standard of conduct, competency, accountability, training & development and interaction with directors, management and stakeholders.

Each director also undertakes a self-assessment to evaluate their contribution to the Board. This self-assessment process takes into account, *inter alia*, the commitment, value of contribution to the development of strategy, availability at board meetings, interactive skills, degree of preparedness, industry awareness and business knowledge and experience of each director.

All directors are requested to complete an evaluation questionnaire designed to seek their views on the various aspects of the self and Board performance so as to assess the overall effectiveness of the Board.

The completed questionnaire were collated by the Company Secretary and the results of the evaluation exercise were subsequently considered by the NC, before making recommendations to the Board, aimed at assisting the Board to discharge its duties more effectively. Following the review of the questionnaire assessment of the Board for FY2017, both the NC and the Board are of the view that the performance of the Board as a whole is satisfactory. The NC is satisfied that each member of the Board has effectively and efficiently contributed to the Board and the Group during the year.

The Board has not engaged any external facilitator in conducting the assessment of the effectiveness of the Board and the Board Committee and the performance of individual Directors. Where relevant, the NC will consider such engagement.

Each member of the NC shall abstain from voting on any resolutions and making any recommendation and/or participating in any deliberations of the NC in respect of the assessment of his/her own performance or re-nomination as director. Accordingly, Mr Tan Chow Boon and Mr Ho Boon Chuan Wilson, as members of the NC have abstained from voting on any resolutions in respect of the assessment of his/her performance or re-nomination as a Director.

Access to Information

Principle 6: In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

The Management recognises the importance of ensuring the flow of complete, adequate and timely information to the Directors on an ongoing basis to enable them to make informed decisions to discharge their duties and responsibilities. To allow Directors sufficient time to prepare for the meetings, all Board and Board Committee papers are distributed to the Directors in advance of the meetings. Any additional material or information requested by the Directors is promptly furnished.

The information provided by Management to the Board include background and explanatory information such as facts, resources needed, risk analysis and mitigation strategies, financial impact, regulatory implications, expected outcomes, conclusions and recommendations, budgets, forecasts and internal financial statements, and in respect of budgets, any material variance between the projections and actual results will be disclosed and explained. Employees who can provide additional insight into matters to be discussed will be present at the relevant time during the Board and Board Committee meetings. In order to keep Directors abreast of the Group's operations, the Directors are also updated on initiatives and developments on the Group's business as soon as practicable and/or possible and on an on-going basis.

The Board has separate, unfettered and independent access to the Management and the Company Secretary at all times. The Company Secretary is responsible for, among other things, ensuring that the Board's procedures are observed and the Company's Constitution, relevant rules and regulations, including requirements of the Companies Act (Chapter 50) of Singapore and the Catalist Rules are complied with. The Company Secretary also assists the Chairman and the Board in implementing and strengthening corporate governance practices and processes, with a view to enhancing long-term shareholder value.

The Company Secretary also assists the Chairman in ensuring good information flows within the Board and its Board Committees and between the Management and the Non-Executive Directors. The Company Secretary attends and prepares minutes for all Board meetings. As secretary for all Board Committees, the Company Secretary assists in ensuring coordination and liaison between the Board, the Board Committees and the

Management. The Company Secretary assists the Chairman of the Board, the Chairman of Board Committees and the Management in the development of the agendas for the various Board and Board Committee meetings. The decision to appoint and remove the Company Secretary is made by the Board as a whole. Each Director, in the furtherance of their duties, has the right to seek independent legal and other professional advice, where appropriate, at the Company's expense.

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

Level and Mix of Remuneration

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

Matters concerning remuneration of the Board, senior executives and other employees who are related to the controlling shareholders and/or the Directors (if any) are handled by the RC whose primary function is to develop formal and transparent policies on remuneration matters in the Company. The RC also reviews and ensures that the Company's remuneration system is competitive and sufficient to attract, retain and motivate the required talents to run the Company successfully.

Matters which are required to be disclosed in the annual remuneration report have been sufficiently disclosed in this Report under Principles 7, 8 and 9, as well as in the audited financial statements of the Company and of the Group.

The RC consists of three (3) members, all of whom are Non-Executive Directors and majority of whom, including the RC Chairman, are Independent Directors:

Mr Ong Sie Hou Raymond*	–	Chairman
Mr Ho Boon Chuan Wilson*	–	Member
Mr Tan Chow Boon	–	Member

*Independent Director

The RC will meet at least once a year. The RC carries out its duties in accordance with a set of terms of reference which includes the following:

- reviewing and recommending to the Board, in consultation with the Executive Chairman and CEO, for endorsement, a framework of remuneration policies to determine the specific remuneration packages and terms of employment for each Director and key management personnel, including employees related to the Directors and controlling shareholders, and the implementation of appropriate performance-related elements to be incorporated in the remuneration framework;

- reviewing and recommending the remuneration of the Non-Executive Directors, taking into account factors such as their effort, time spent and their responsibilities;

- reviewing and administering the award of shares and/or share options to Directors and employees under the employee performance share plan and/or employee share option scheme adopted by the Company;

- reviewing and determining the contents of any service contracts for any Directors or key management personnel; and

- carrying out other duties as may be agreed by the RC and the Board, subject always to any regulations or restrictions that may be imposed upon the RC by the Board from time to time.

The RC is responsible for ensuring a formal and transparent procedure is in place for fixing the remuneration packages of individual Directors, key management personnel and related employees. All aspects of remuneration, including but not limited to, Directors' fees, salaries, allowances, bonuses, awards to be granted under the performance share plan and the options to be issued under the employee share option scheme as well as other benefits-in-kind are reviewed by the RC. The recommendations of the RC are submitted for endorsement by the Board. Such frameworks are reviewed periodically to ensure that the Directors and key management personnel are adequately but not excessively remunerated as compared to industry benchmarks and other comparable companies.

The Executive Director does not receive Directors' fees. The annual variable bonus and performance-related component of remuneration is designed to align the interests of the Executive Director with those of the shareholders and link rewards to the Group's financial performance.

The RC reviews the fairness and reasonableness of the termination clauses of the service agreements of the Executive Director and key management personnel to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous, with an aim to be fair and avoid rewarding poor performance. The Executive Director has a service agreement with the Company which can be terminated by the Company (without prejudice to and in addition to any other remedy) by giving not less than six (6) months' written notice. The appointment of such senior position is on a long-term basis and no onerous removal clauses are contained in their respective service agreement.

The RC is of the view that it is currently not necessary to use contractual provisions to allow the Company to reclaim incentive components of remuneration from the Executive Director and key management personnel in exceptional circumstances of misstatement of financial statements, or of misconduct resulting in financial loss to the Company and the Group. The Executive Director owes a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the Executive Director and key management personnel in the event of such exceptional circumstances of breach of fiduciary duty.

The remuneration of Non-Executive Directors is in the form of a fixed fee which will be subjected to shareholders' approval at the AGM. Each member of the RC abstains from voting on any resolutions in respect of his own remuneration package.

The remuneration of employees related to Director/CEO will be reviewed annually by the RC to ensure that their remuneration packages are in line with the staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities. Any bonuses, pay increments and/or promotions for these related employees will also be subject to the review and approval of the RC. In the event that a member of the RC is related to the employee under review, he will abstain from participating in the review.

The RC also oversees the administration of the Kim Heng Share Employee Share Option Scheme ("**Kim Heng**

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ESOS") and Kim Heng Performance Share Plan ("**Kim Heng PSP**") (as well as such other similar share plans as may be implemented by the Company from time to time) upon the terms of reference as defined in the Kim Heng ESOS and Kim Heng PSP. Both Kim Heng ESOS and Kim Heng PSP, which were established on 26 December 2013, had a 10-year tenure commencing on the establishment date.

Where necessary, the RC will consult external professionals on remuneration matters of the Directors and key management personnel. No remuneration consultants were engaged by the Company in FY2017.

Disclosure on Remuneration

Principle 9: Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

Details of the remuneration of the Directors and key management personnel of the Group for FY2017 are set out below:

	Breakdown of Remuneration in Percentage (%)					
Directors	**Fees (%)**	**Salary (%)**	**Benefits-in-kind (%)**	**Variable Bonus* (%)**	**Total (%)**	
Tan Keng Siong Thomas	–	91	2	7	100	Band C
Yeo Seh Hong(1)	–	88	5	7	100	Band B
Douglas Owen Chester(2)	100	–	–	–	100	Band A
Ong Sie Hou Raymond	100	–	–	–	100	Band A
Ho Boon Chuan Wilson	100	–	–	–	100	Band A
Tan Chow Boon	100	–	–	–	100	Band A

***One-off discretionary variable bonus**

(1) Mdm Yeo Seh Hong resigned as Executive Director on 12 December 2017 and remains as the Chief Operating Officer.

(2) Mr Douglas Owen Chester resigned as Independent Non-Executive Director and relinquished his position as Chairman of Nominating Committee and a member of Audit and Risk and Remuneration Committee on 12 December 2017.

Key Management	Designation	Breakdown of Remuneration in Percentage (%)				
		Salary (%)	Benefits-in-kind (%)	Variable Bonus (%)	Total (%)	
Michael Law Sai Leung	Chief Financial Officer	92	–	8	100	Band A
Tan Keng Hoe Melvin[(a)]	Commercial and Operations Director	88	5	7	100	Band B
Tan Wen Hao Justin Anderson[(b)]	General Manager	92	–	8	100	Band A
Heng Aik Soon	General Manager – Yard	92	-	8	100	Band A

Notes:

(a) Brother of Mr Tan Keng Siong Thomas, Executive Chairman and CEO. Mr Tan Keng Hoe Melvin was re-designated as Commercial and Operations Director with effect from 18 January 2017.

(b) Son of Mr Tan Keng Siong Thomas, Executive Chairman and CEO

Band A: Compensation from S$250,000 and below per annum
Band B: Compensation from S$250,001 to S$500,000 per annum
Band C: Compensation from S$500,001 and above per annum

In aggregate, the total remuneration (including CPF contribution, bonus and benefits-in-kind) paid to the top four (4) key management personnel (who are not Directors or the CEO) in FY2017 was S$811,768.

To maintain confidentiality on the remuneration policies of the Company, the Board is of the view that it is in the best interests of the Company to keep the disclosure of remuneration of each individual Director and key management personnel in salary bands.

Save as disclosed, there are no termination, retirement and post-employment benefits that may be granted to the Directors and key management personnel.

Apart from Ms Tan Peck Ling Jocelyn and Ms Tan Peck Ching Jeliane, being the daughters of Mr Tan Keng Siong Thomas, the Executive Chairman and CEO, whom hold the positions of Head of Corporate Services and Head of Supply Chain respectively with a remuneration band of S$100,001 to S$150,000 for FY2017, as well as Mr Tan Keng Hoe Melvin, being the brother of the Executive Chairman and CEO with a remuneration band of S$300,001 to S$350,000 and Mr Tan Wen Hao Justin Anderson, being the son of the Executive Chairman and CEO, with a remuneration band of S$100,001 to S$150,000, none of the full-time employees are related to the Directors or substantial shareholders. The RC is of the view that their remuneration are in line with the Company's staff remuneration guidelines and commensurate with their job scopes and level of responsibilities.

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During the year, the Company had renewed the service agreement with the Executive Director, namely, Mr Tan Keng Siong Thomas, governing the terms and conditions of his employment with the Company. The remuneration package for the Executive Director is based on terms stipulated in his service agreement. The remuneration package of Mr Tan Keng Siong Thomas includes a profit sharing scheme that is performance related to align his interests with those of the shareholders.

The Company has adopted the Kim Heng PSP and the Kim Heng ESOS in conjunction with the listing of the Company on the Catalist of the SGX-ST, which were approved by its shareholders at an extraordinary general meeting held on 26 December 2013. Both the Kim Heng PSP and Kim Heng ESOS will provide eligible participants with an opportunity to participate in the equity of the Company and to motivate them towards better performance through increased dedication and loyalty. Both the PSP and ESOS form an integral and important component of the compensation plan and are designed primarily to reward and retain employees whose services are vital to the growth and performance of the Company and the Group.

As at the date of this Report, no awards or options have been granted under the Kim Heng PSP and Kim Heng ESOS respectively.

ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

Risk Management and Internal Controls

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Board recognises the importance of providing accurate and relevant information on a timely basis. In this respect, the ARC reviews all financial statements and recommends them to the Board for approval. In addition, the ARC ensures that the Company maintains a sound system of internal controls to safeguard its shareholder's investments and the Group's assets as well as to manage potential risks.

In discharging its responsibility of providing accurate relevant information on a timely basis to shareholders in compliance with statutory and regulatory requirements, the Board strives to ensure timely release of the Group's financial results and that the results provide a balanced and understandable assessment of the Group's performance, position and prospects.

The Board takes steps to ensure compliance with legislative and regulatory requirements, including requirements under the Catalist Rules, where appropriate. The Independent Directors, in consultation with the Management, will request for the establishment of written policies of any particular matter that is deemed essential to form part of management control.

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On a quarterly basis, the Management will report to the ARC the financial processes and controls that are in place, highlighting material financial risks and impacts and providing updates on the status of significant financial issues of the Group, if any.

The Board is responsible for the governance of risk. It ensures that the Management maintains a sound system of risk management and internal controls to safeguard the Company's shareholders' interests and the Group's assets and to determine the nature and extent of significant risks which the Board is willing to take in achieving its strategic objectives.

The Management is responsible to the Board for the design, implementation and monitoring of the Group's risk management and internal control systems and to provide the Board with a basis to determine the Group's level of risk tolerance and risk policies. The Board acknowledges that it is responsible for reviewing the adequacy and effectiveness of the Group's risk management and internal control systems including financial, operational, compliance and information technology controls. The Board also recognises its responsibilities in ensuring a sound system of internal controls to safeguard the Company's shareholders' investments and the Group's assets.

The Group has established an Enterprise Risk Management ("**ERM**") framework for identification of key risks within the business and has adopted the use of risk register and summary of comfort matrices to document the identified risks as well as taking appropriate measures to control and mitigate these risks.

The Management Risk Committee ("**MRC**") which was formed in FY2015 comprises of Management and executive officers from various departments. The MRC conducts regular reviews and provides reports to the ARC every half yearly on the Group's business and operational activities in respect of the key risk control areas including financial, operational, compliance and information technology controls and continues to apply appropriate measures to control to mitigate these risks. All significant matters are highlighted to the Board and the ARC for further discussion. The Board and the ARC also work with the internal auditors, the external auditors and the Management on their recommendations to institute and execute relevant controls with a view to managing such risks.

The Company has engaged outsourced internal auditors, who have carried out internal audit reviews and performed gap analysis on the ERM, as part of the annual internal audit plan approved by the ARC.

Based on the internal controls established and maintained by the Group, work performed by the internal auditors and the external auditors, and reviews performed by the Management, the Board with the concurrence of the ARC, is of the opinion that the Group's risk management and internal control systems put in place during the financial year to address financial, operational, compliance and information technology risks, are adequate and effective. The Board has received assurances from the CEO and the Chief Financial Officer ("**CFO**") that:

(a) the financial records of the Group have been properly maintained and the financial statements for FY2017 give a true and fair view of the Group's operations and finances, and are prepared in accordance with the relevant accounting standards; and

(b) the Company's risk management and internal control systems are adequate and effective.

The Board notes that the system of internal controls is designed to manage, rather than to eliminate, the risk of failure in achieving business objectives, and that no system of risk management and internal control can provide absolute assurance against the occurrence of errors, losses, fraud or other irregularities and the containment of business risk. Nonetheless, the Board believes its responsibility of overseeing the Group's risk management framework and policies are well supported. The Board will look into the need for establishment of a separate board risk committee at the relevant time.

Corporate **Governance Report**

Audit & Risk Committee

Principle 12: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The ARC currently comprises three (3) members, majority of whom, including the ARC chairman, are Independent Directors:

Mr Ho Boon Chuan Wilson* – Chairman
Mr Ong Sie Hou Raymond* – Member
Mr Tan Chow Boon – Member

*Independent Director

The Board is of the view that the ARC members are appropriately qualified and have sufficient accounting and/or related financial management expertise and experience to discharge the ARC's responsibilities.

The ARC meets on a quarterly basis and plays a key role in assisting the Board to review significant financial reporting issues and judgments to ensure the quality and integrity of the accounting reports, the audit procedures, internal controls, financial statements and any announcements relating to the Group's financial performance, as well as the risk management functions.

The members of the ARC carry out their duties in accordance with a set of terms of reference which includes:

- assisting the Board in discharging its responsibilities on financial reporting matters;
- reviewing, with the internal and external auditors, the audit plans, scope of work, their evaluation of the system of internal accounting controls, their management letter and the Management's response, and results of their audits compiled by the internal and external auditors;
- reviewing the periodic consolidated financial statements and results announcements before submission to the 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 financial reporting standards as well as compliance with the Catalist Rules and any other statutory and regulatory requirements;
- reviewing the effectiveness and adequacy of the internal control procedures addressing financial, operational and compliance risks, and ensure co-ordination between the internal and external auditors, and the Management, reviewing the assistance given by the Management to the auditors, and discussing 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 the Management where necessary);
- reviewing the scope and results of the external audit, and the independence and objectivity of the external auditors;
- reviewing and discussing with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position, and the Management's response;

- making recommendations to the Board on the proposals to the shareholders relating to the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;
- reviewing significant financial reporting issues and judgments with the CFO and the external auditors so as to ensure the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance before their submission to the Board;
- reviewing and reporting to the Board at least annually the adequacy and effectiveness of the Group's main internal controls with the CFO and the internal and external auditors, including financial, operation, compliance and information technology controls via reviews carried out by the internal auditors;
- reviewing and approving transactions falling within the scope of Chapter 9 and Chapter 10 of the Catalist Rules (if any);
- reviewing any potential conflicts of interest;
- reviewing the suitability of the CFO and the adequacy of the finance team on an on-going basis;
- reviewing and approving all hedging policies and instruments (if any) to be implemented by the Group;
- undertaking such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of the ARC;
- reviewing the financial risk areas, with a view to providing an independent oversight on the Group's financial reporting, the outcome of such review to be disclosed in the annual reports or if the findings are material, to be immediately announced via SGXNET;
- reviewing and establishing procedures for receipt, retention and treatment of complaints received by the Group, *inter alia*, criminal offences involving the Group or its employees, questionable accounting, auditing, business, safety or other matters that impact negatively on the Group;
- reviewing the Group's compliance with such functions and duties as may be required by statute or the Catalist Rules, and by such amendments made thereto from time to time;
- reviewing arrangements by which the staff may, in confidence, raise concerns about improprieties in matters of financial reporting or other matters, and to ensure that those arrangements are in place for independent investigations of such matters and for appropriate follow-up;
- undertaking generally such other functions and duties as may be required by law or the Catalist Rules, and by such amendments made thereto from time to time;
- reviewing and recommending the risk management strategies, policies and risk tolerance levels for the Board's approval;
- overseeing and advising the Board on the current risk exposure and future risk strategy of the Group;
- reviewing and assessing the adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risks and the extent to which these are operating effectively;
- reviewing and recommending new policies or changes to policies and to consider their risk implications;

Corporate **Governance Report**

- reporting to the Board on the Group's risk exposures, including review risk assessment model used to monitor the risk exposures and the Management's views on the acceptable and appropriate level of risk faced by the Group;
- reviewing all relevant risk reports on the Group;
- reporting to the Board on any material changes to the risk profile of the Group;
- reviewing risk management structure and recommend appropriate measures to control and mitigate the risks of the Group, as and when these arise;
- receiving and reviewing periodic report from MRC; and
- advising the Board on proposed strategic transactions, focusing in particular on risk aspects and implications for the risk tolerance of the Group, and taking independent external advice where appropriate and available.

Apart from the duties listed above, the ARC shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Group's operating results and/or financial position. Each member of the ARC shall abstain from voting on any resolutions in respect of matters in which he is interested.

As at date of this Report, the ARC has:

(i) reviewed the scope of work of the external auditors;

(ii) reviewed the scope of work of the internal auditors;

(iii) reviewed the MRC's report and the risk register and summary of comfort matrices;

(iv) reviewed the Gap Analysis Report of the Group's Enterprise Risk Management;

(v) reviewed the audit plans of both the internal and external auditors and discussed the results of the findings and evaluation of the Company's system of internal controls;

(vi) reviewed and reported to the Board the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls

(vii) reviewed interested person transactions of the Company;

(viii) met with the Company's external auditors and internal auditors without the presence of the Management;

(ix) reviewed the independence and objectivity of external auditors;

(x) reviewed and recommended the adoption of the Anti Bribery Policy;

(xi) reviewed the Trade Receivable Ageing Report of the Group

(xii) reviewed the Company's procedures for detecting fraud and whistle blowing matters; and

(xiii) reviewed and recommended to the Board announcements relating to the Group's quarterly and full year results.

Key Audit Matters

Subsequent to the discussions with management and the external auditors, the Committee has determined that the following matters are the key audit matters, amongst other significant matters considered in relation to the Group's financial statements for the year ended 31 December 2017. The table below indicates how these matters were discussed and addressed:

Key audit matter	Action
Allowance for doubtful receivables	The Group maintains an allowance for doubtful debts on the estimated losses that may result from the inability of the Group's customers to make the required payments, at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectability of the individual outstanding debt. Management specifically analysed accounts receivables taking into consideration historical bad debts, customer creditworthiness, current economic trends, changes in customer payment terms, customer defaults on payment terms, legal proceedings and other available information when evaluating the adequacy of allowance for doubtful debts. The Audit Committee has reviewed the management's assessment of allowance for doubtful debts and discussed with the auditors on their review of its reasonableness. Subsequent to the discussions, the Committee concurred with the management's assessment on the allowance for doubtful debt and found that allowance for doubtful debts is adequate.
Carrying values of non-financial assets	The Group's non-financial assets mainly comprises of property, plant and equipment. In view of the recurring losses and difficult industry conditions, management performed an impairment assessment of its property, plant and equipment. The Audit Committee has reviewed the management's assessment and discussed with the auditors on the methodology of management's impairment assessment. The Committee concurred with the management's assessment and found that the allowance for impairment loss on plant and equipment is adequate.

The aggregate amount of audit and non-audit fees paid or payable to the external auditors, KPMG LLP, for FY2017 are S$260,000 and S$46,000 respectively. The ARC has undertaken a review of the volume and nature of the non-audit services provided by the external auditors to the Group and is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors. The ARC has recommended to the Board the nomination of KPMG LLP for re-appointment as auditors of the Company at the forthcoming AGM. The Group has also complied with Rules 712 and 715 of the Catalist Rules in relation to the appointment of its external auditors.

The ARC has explicit authority to investigate any matter within its terms of reference. It has full access to, and has had the full co-operation of the Management. It also has full discretion to invite any Director or any member of the Management to attend its meetings or be provided with reasonable resources to enable it to discharge its functions properly.

Corporate **Governance Report**

To keep abreast of the changes in accounting standards and issues which have a direct impact on the financial statements, the ARC will seek advice from the external auditors at the ARC meetings held.

No former partner or director of the Company's existing auditing firm is a member of the ARC.

Whistle Blowing Policy

The Company has adopted the whistle-blowing policy where staff of the Group may, in confidence, raise concerns on any suspicion of wrongdoings which covers improprieties in matters of financial reporting, fraudulent acts and other matters within the Group. The Management and the ARC have been vested with the power and authority to receive, investigate and enforce appropriate follow up actions when any such non-compliance matter is brought to its attention.

As at the date of this Report, there were no reports received through the whistle-blowing mechanism.

Internal Audit

Principle 13: The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The ARC's responsibilities over the Group's internal controls and risk management are complemented by the work of the internal auditors. The ARC has approved the appointment of a qualified public accounting firm, PricewaterhouseCoopers Risk Services Pte. Ltd. ("PwC"), as the Group's internal auditors. PwC has unrestricted direct access to all of the Group's documents, records, properties and personnel and reports directly to the ARC on all internal audit matters. Annual internal audit plan is submitted to ARC for approval prior to the commencement of the audit work and PwC plans their internal audit schedules in consultation with the Management. Having reviewed the audit plan of PwC, the ARC is satisfied that the Company's internal audit function is adequately resourced to perform the job for the Group.

The ARC is satisfied that the internal audit function is adequately resourced, with staff equipped with the relevant qualifications and experience, to perform its function effectively and to meet the needs of the Group in its current business environment.

The internal auditors carry out their function in accordance with their global internal audit services methodology, which is aligned to the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The ARC ensures that the Management provides good support to the internal auditors and provides them with access to documents, records, properties and personnel when requested in order for the internal auditors to carry out their function accordingly. The internal auditors also have unrestricted access to the ARC on internal audit matters. The ARC reviews and endorses the internal audit plan and internal audit reports of the Group. Any material non-compliance or failures in the internal audit function and recommendations for improvements are reported to the ARC. The ARC will review the adequacy and effectiveness of the internal audit function annually.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Shareholder Rights

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

Communication with Shareholders

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

Conduct of Shareholder Meetings

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Group recognises the importance of maintaining transparency and accountability to its shareholders. The Board ensures that all the Company's shareholders are treated equitably and the rights of all investors, including non-controlling shareholders are protected. In line with the continuing disclosure obligations of the Company pursuant to the Catalist Rules and the Companies Act (Chapter 50) of Singapore, the Group is committed to providing shareholders with adequate, timely and relevant information pertaining to the Group's business developments, financial performance and other factors which could have a material impact on the Company's share price. The Company communicates with shareholders and the investing community through the timely release of announcements via SGXNET. Financial results of the Group will be released within 45 days from the respective quarter end and 60 days from the full financial year end. In addition, the Annual Report 2017 is distributed to shareholders at least 14 days before the AGM to be held on 23 April 2018.

The Board embraces openness and transparency in the conduct of the Group's affairs, whilst safeguarding its commercial interests. The Company does not practice selective disclosure and price sensitive information is publicly disclosed on an immediate basis where required under the Catalist Rules. Material information on the Group has been released to the public through the Company's announcements via the SGXNET.

The Group strongly encourages shareholders' participation during the AGM which will be held in Singapore. Shareholders are able to proactively engage the Board and the Management on the Group's business activities, financial performance and other business-related matters through dialogue sessions. The Group believes in regular, effective and fair communication with shareholders and is committed to hearing shareholders' views and addressing their concerns Shareholders are also informed of the rules and voting procedures governing such meetings.

As at the date of this Report, the Company does not have a fixed dividend policy. In considering the form, frequency and amount of dividends that the Board may recommend or declare in respect of any particular year or period, the Board takes into account various factors including:

- The level of the Group's cash and retained earnings.
- The Group's actual and projected financial performance.
- The Group's projected levels of capital expenditure and other investment plans.
- The Group's working capital requirements and general financing condition.

Corporate **Governance Report**

Any payouts of dividend are clearly communicated to shareholders in public announcements and via announcements on SGXNET when the Company discloses its financial results. The Company has proposed a one-tier tax exempt final dividend of 0.07 Singapore cents per ordinary share in respect of FY2017, subject to shareholders' approval at the forthcoming AGM.

The Group supports and encourages active shareholders' participation and vote at general meetings. The Board believes that general meetings serve as an opportune forum for shareholders to meet the Board and key management personnel, and to interact with them. Information on general meetings is disseminated through notices in the annual reports or circulars sent to all shareholders. The notices are also released via SGXNET and published in local newspapers, as well as posted on the Company's website.

In addition to SGXNET announcements and its annual report, the Company updates shareholders on its major corporate developments through its corporate website at www.kimheng.com.sg.

The Company's Constitution allows all shareholders to appoint not more than two (2) proxies to attend general meetings and vote on their behalf. Presently, the Company's Constitution does not allow a shareholder to vote in absentia, such as via mail, electronic mail or facsimile. Separate resolutions on each distinct issue are tabled at general meetings and explanatory notes are set out in the notices of general meetings where appropriate. All Directors including Chairman of the Board and the respective Chairman of the Board Committees, the Management, legal professionals and the external auditors are intended to be in attendance at the forthcoming AGM to address any queries of the shareholders.

The Company will record the minutes of general meetings that include substantial and pertinent comments from shareholders relating to the agenda of the meetings and responses from the Management. Such minutes will be made available to shareholders upon their written request.

The Company will put all resolutions to vote by poll at general meetings and an announcement of the detailed results of the number of votes cast for and against each resolution and the respective percentages will be made on the same day.

OTHER CORPORATE GOVERNANCE MATTERS

The Company has in place internal codes of conduct and practices for its Board members and employees on securities transactions while in possession of price-sensitive information and their conduct of business activities.

DEALINGS IN SECURITIES

(Rule 1204 (19) of the Catalist Rules)

The Company has complied with Rule 1204(19) of the Catalist Rules in relation to dealings in the Company's securities by the Company, Directors and all employees of the Group.

The Group has adopted an internal compliance code to provide guidance to its Directors and all employees of the Group with regards to dealings in the Company's securities. The code prohibits dealing in the Company's securities by the Directors and employees of the Group while in possession of unpublished price sensitive information. Directors and employees are not allowed to deal in the Company's securities on short-term considerations and during the period of two (2) weeks before the date of announcement of its quarterly financial results and one (1) month before the announcement of the Company's full year financial results. The Company, Directors and employees are also required to adhere to the provisions of the Securities and Futures Act (Chapter 289) of Singapore, Companies Act (Chapter 50) of Singapore, the Catalist Rules and any other relevant regulations with regards to their securities transactions. They are also expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period.

INTERESTED PERSON TRANSACTIONS
(Rule 907 of the Catalist Rules)

The Company has established internal control policies to ensure that transactions with interested persons are reported in a timely manner to the ARC and that the transactions are carried out on an arm's length basis and on normal commercial terms that will not be prejudicial to the interests of the Company and its minority shareholders.

The ARC and the Board have reviewed all interested person transactions for FY2017. There was no interested party transactions of aggregate value of S$100,000 or more for FY2017.

The Company does not have a shareholders' mandate for interested person transactions pursuant to Rule 920 of the Catalist Rules.

MATERIAL CONTRACTS
(Rule 1204(8) of the Catalist Rules)

Save for the service agreement between the Company and the Executive Director, disclosures above in the "Interested Person Transactions" section and except as disclosed in this Report, Directors' Report and the audited financial statements of the Company for FY2017, there were no other material contracts of the Company and its subsidiaries involving the interests of the CEO or any Director or controlling shareholder, either subsisting at the end of the financial year reported on or if not then subsisting, which were entered into since the end of the previous financial year.

NON-SPONSOR FEES
(Rule 1204(21) of the Catalist Rules)

No non-sponsor fees were paid to the Company's sponsor, SAC Capital Private Limited in FY2017.

Corporate **Governance Report**

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING ("IPO")

(Rule 1204(22) of the Catalist Rules)

As announced on 23 February 2018, the IPO proceeds have been utilised as follows:

	Intended usage in accordance with the Offer Document	Allocation $'000	Re-allocation $'000	Revised Allocation $'000	Amount utilised as of 2 February 2018 $'000
1	CAPEX for yard facilities enhancement and fleet expansion	20,000	(5,000)	15,000	(15,000)
2	Expansion of business scope (M&A)	7,000	(7,000)	–	–
3	General working capital	9,400	12,110	21,510	(21,510)[1]
4	IPO Expenses	3,600	(110)	3,490	(3,490)
		40,000	–	40,000	(40,000)

Note:

[1] The amount is mainly used for purchase of materials for trading purposes.

The above use of the net proceeds is in accordance with the re-allocation of the IPO proceeds as stated in the announcement dated 20 October 2016. Please refer to the announcements made on 20 October 2016, 12 June 2017, 11 July 2017 and 8 November 2017 for more details on the re-allocation of proceeds and usage of the proceeds from the Company's Initial Public Offering.

CODE OF CONDUCT & PRACTICES

The Group recognises the importance of integrity and professionalism on the conduct of its business activities. Employees are expected to embrace, practise and adopt these values when performing their duties and always to act in the best interest of the Group and avoid situations that may create conflicts of interest.

FINANCIAL **CONTENTS**

Directors' **Statement**

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2017.

In our opinion:

(a) the financial statements set out on pages 56 to 109 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

Directors

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

Tan Keng Siong Thomas
Ho Boon Chuan Wilson
Ong Sie Hou Raymond
Tan Chow Boon

Directors' interests

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 ("the Act"), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

	Shareholdings registered in the name of directors		Shareholdings in which directors are deemed to have an interest	
	At 1 January 2017	At 31 December 2017	At 1 January 2017	At 31 December 2017
	Number of ordinary shares			
The Company				
Tan Keng Siong Thomas	3,875,000	3,875,000	299,200,000	299,200,000
Tan Chow Boon	–	–	124,999,600	124,999,600
Ho Boon Chuan Wilson	100,000	100,000	–	–
Ong Sie Hou Raymond	100,000	100,000	–	–

Directors' **Statement**

By virtue of Section 7 of the Act, Tan Keng Siong Thomas is deemed to have interests in the shares of the Company held by KH Group Holdings Pte. Ltd.. Tan Keng Siong Thomas , by virtue of his interests of not less than 20% of the issued share capital of the Company, is deemed to have an interest in the whole of the share capital of the Company's wholly-owned subsidiaries. Tan Chow Boon is deemed to have interests in the shares of the Company held by Credence Capital Fund II (Cayman) Limited.

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning or at the end of the financial year.

There were no changes in any of the above mentioned interests in the Company between the end of the financial year and 21 January 2018.

Share options and share-based incentive

Kim Heng Employee Share Option Scheme 2013 ("Kim Heng ESOS") and Kim Heng Performance Share Plan 2013 ("Kim Heng PSP")

The Company has adopted a share option scheme known as Kim Heng ESOS and performance share plan known as Kim Heng PSP. The Kim Heng ESOS and Kim Heng PSP were approved and adopted by the shareholders pursuant to a members' resolution in writing on 26 December 2013. The share option scheme and performance share plan are administered by the Company's Remuneration Committee. No share options or performance shares have been granted or awarded pursuant to the Kim Heng ESOS and Kim Heng PSP.

There were no share options granted by the Company or its subsidiaries during the financial year.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiaries.

There were no unissued shares of the Company or of its subsidiaries under options as at the end of the financial year.

Audit & Risk Committee

The members of the Audit & Risk Committee during the year and at the date of this statement are:

• Ho Boon Chuan Wilson	(Chairman)	Independent Director
• Ong Sie Hou Raymond	(Member)	Independent Director
• Tan Chow Boon	(Member)	Non Executive Director

The Audit & Risk Committee performs the functions specified in Section 201B of the Act, the SGX Listing Manual and the Code of Corporate Governance, including the following:

(i) reviewing the audit plans and results of the external audits;

(ii) reviewing the audit plans and results of the internal auditors' examination and evaluation of the Group's system of internal accounting controls;

(iii) reviewing the Group's financial and operating results and accounting policies;

Directors' **Statement**

(iv) reviewing the consolidated financial statements of the Group and the statement of financial position of the Company before their submission to the directors of the Company, and the external auditors' report on those financial statements;

(v) reviewing the quarterly and annual announcements on the results of the Company and the Group;

(vi) ensuring the co-operation and assistance given by the management to the Group's internal and external auditors;

(vii) making recommendation to the Board on the re-appointment of Group's internal and external auditors;

(viii) reviewing the Interested Person Transactions as required and defined in Chapter 9 of the SGX-ST Listing Manual Section B: Rules of Catalist and ensuring that the transactions were on normal commercial terms and not prejudicial to the interests of the members of the Company;

(ix) reviewing and recommending the risk management strategies, policies and risk tolerance levels for the Board's approval;

(x) reviewing and assessing the adequacy for risk management policies and framework in identifying, measuring, monitoring and controlling risks and the extent to which these are operating effectively;

(xi) reviewing all relevant risk reports on the Group and reporting to the Board on any material changes to the risk profile of the Group;

(xii) reviewing risk management structure and recommending appropriate measures to control and mitigate the risks of the Group, as and when these arise; and

(xiii) advising the Board on proposed strategic transactions, focusing in particular on risk aspects and implications for the risk tolerance of the Group, and taking independent external advice where appropriate and available.

The Audit & Risk Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit & Risk Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit & Risk Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

In appointing our auditors for the Company and subsidiaries, we have complied with Rules 712 and 715 of the SGX Listing Manual.

Directors' **Statement**

Auditors

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Tan Keng Siong Thomas
Director

Tan Chow Boon
Non-Executive Director

29 March 2018

Independent **Auditor's Report**

Members of the Company
Kim Heng Offshore & Marine Holdings Limited

Report on the audit of the financial statements

We have audited the financial statements of Kim Heng Offshore & Marine Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 56 to 109.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the '*Auditors' responsibilities for the audit of the financial statements*' section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent **Auditor's Report**

Members of the Company
Kim Heng Offshore & Marine Holdings Limited

Allowance for doubtful trade receivables
(Refer to Note 8 and Note 16 to the financial statements)

The key audit matter

The Group's trade receivables as at 31 December 2017 amounted to $5,659,000.

The Group maintains an allowance for doubtful debts on the estimated losses that may result from the inability of the Group's customers to make the required payments, at a level considered adequate to provide for potential uncollectible receivables. Accumulated allowance for doubtful debts of $8,093,000 has been recorded. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectability of the individual outstanding debt. Management specifically analysed accounts receivables taking into consideration historical bad debts, customer creditworthiness, current economic trends, changes in customer payment terms, customer defaults on payment terms, legal proceedings and other available information when evaluating the adequacy of allowance for doubtful debts.

This area was a key audit matter due to the amounts involved, as well as the inherent subjectivity that was involved in making judgement by the Group in relation to credit risk exposures to determine the recoverability of trade receivables.

How the matter was addressed in our audit

We tested the Group's basis of determining the adequacy of allowance for doubtful trade receivables.

We identified a sample of long outstanding balances and significant balances for collectability assessment individually. We performed our assessment by making enquiry with management and reviewing the customer's payment track records including receipts post year end and its financial position, as appropriate. Where the debt is subject to dispute or potential dispute, we reviewed management's assessment and the Group's rights under the contract as well as external legal advice, if applicable, to assess the adequacy of recorded allowance amount.

We considered the Group's historical track record of doubtful debts and compared the receipts post year end.

We considered the disclosures in the financial statements about the extent of estimation and judgement involved in determining allowance for doubtful debts.

Our findings

We found that the overall accumulated allowance for doubtful debts as at year end of $8,093,000 is reasonable. We found the disclosures in the financial statements with regard to allowance for doubtful receivables to be appropriate.

Independent **Auditor's Report**

Members of the Company
Kim Heng Offshore & Marine Holdings Limited

Carrying values of non-financial assets
(Refer to Note 4 to the financial statements)

The key audit matter

The Group's non-financial assets comprising property, plant and equipment amounted to $100,454,000 as at 31 December 2017.

The Group has incurred a loss before tax of $14,324,000 for the year ended 31 December 2017 due to difficult industry conditions and its market capitalisation was lower than the net assets by approximately $11,721,000 as of that date. These indicate that the Group's property, plant and equipment might be impaired.

The assessment of the recoverable amounts of the property, plant and equipment which is determined to be the fair value less cost of disposal, requires significant judgment.

How the matter was addressed in our audit

We assessed the appropriateness of management's identification of CGUs. We performed our assessment by making enquiry with management and based on our understanding of the Group's operations and its internal management reporting.

We evaluated the management's assessment of impairment by comparing the carrying values of the property, plant and equipment with the recoverable amount which were assessed based on fair value less cost of disposal. The fair value was determined by independent professional valuers.

We assessed the competence and objectivity of the independent professional valuers. We assessed the appropriateness of the key assumptions and methods used by the independent professional valuers to available industry data and taking into consideration current factors.

Our findings

The independent external valuers are a member of generally-recognised body for valuers and have considered their independence in carrying out their work. The valuation methodologies used are comparable to methods used in the prior year and in line with generally accepted market practices. The key assumptions used by the independent external valuer are within the range of available industry data.

Independent **Auditor's Report**

Members of the Company
Kim Heng Offshore & Marine Holdings Limited

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent **Auditor's Report**

Members of the Company
Kim Heng Offshore & Marine Holdings Limited

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit 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 Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent **Auditor's Report**

Members of the Company
Kim Heng Offshore & Marine Holdings Limited

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Lee Chin Siang, Barry.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
29 March 2018

Statements of **Financial Position**

As at 31 December 2017

		Group		Company	
	Note	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Assets					
Property, plant and equipment	4	100,454	108,385	–	–
Club memberships	5	46	46	–	–
Subsidiaries	6	–	–	36,133	36,133
Non-current assets		100,500	108,431	36,133	36,133
Inventories	7	193	630	–	–
Trade and other receivables	8	8,753	7,830	42,174	30,152
Cash and cash equivalents	9	4,405	20,089	182	12,636
Assets held for sale	10	11,707	–	–	–
Current assets		25,058	28,549	42,356	42,788
Total assets		125,558	136,980	78,489	78,921
Equity					
Share capital	11	74,409	74,409	74,409	74,409
Reserves	12	(10,296)	(11,004)	(92)	–
Accumulated profits		12,132	27,941	3,920	4,249
Equity attributable to owners of the Company		76,245	91,346	78,237	78,658
Liabilities					
Loans and borrowings	13	17,893	17,553	–	–
Deferred tax liabilities	14	10,472	10,286	–	–
Non-current liabilities		28,365	27,839	–	–
Loans and borrowings	13	11,510	7,474	–	–
Trade and other payables	15	8,933	10,279	252	263
Current tax payables		505	42	–	–
Current liabilities		20,948	17,795	252	263
Total liabilities		49,313	45,634	252	263
Total equity and liabilities		125,558	136,980	78,489	78,921

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of **Profit or Loss and Other Comprehensive Income**

Year ended 31 December 2017

		Group	
	Note	**2017**	**2016**
		$'000	**$'000**
Revenue	17	27,438	31,364
Cost of sales		(21,976)	(22,961)
Gross profit		5,462	8,403
Other income	18	2,352	766
Distribution expenses		(787)	(1,056)
Administrative expenses		(12,208)	(13,622)
Other expenses		(8,265)	(11,448)
Results from operating activities		(13,446)	(16,957)
Finance costs	19	(878)	(857)
Loss before tax		(14,324)	(17,814)
Tax expense	21	(988)	(14)
Loss for the year	20	(15,312)	(17,828)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation surplus of property, plant and equipment		1,095	25,863
Tax on revaluation surplus		(186)	(4,397)
		909	21,466
Items that are or may be reclassified subsequently to profit or loss:			
Translation differences relating to financial statements of foreign operations		(109)	25
Other comprehensive income for the year, net of tax		(109)	25
Total other comprehensive income for the year		800	21,491
Total comprehensive income for the year		(14,512)	3,663
Loss per share			
Basic and diluted loss per share (cents)	22	(2.2)	(2.5)

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of **Changes in Equity**

Year ended 31 December 2017

	Note	Share capital $'000	Merger deficit $'000	Translation reserve $'000	Revaluation reserve $'000	Accumulated profits $'000	Total equity $'000
At 1 January 2016		74,409	(32,763)	268	–	47,899	89,813
Total comprehensive income for the year							
Loss for the year		–	–	–	–	(17,828)	(17,828)
Other comprehensive income							
Translation differences relating to financial statements of foreign operations		–	–	25	–	–	25
Revaluation surplus of property, plant and equipment		–	–	–	25,863	–	25,863
Tax on revaluation surplus		–	–	–	(4,397)	–	(4,397)
Total other comprehensive income for the year				25	21,466	–	21,491
Total comprehensive income for the year		–	–	25	21,466	(17,828)	3,663
Transaction with owners, recognised directly in equity							
Distributions to owners							
Dividends	11	–	–	–	–	(2,130)	(2,130)
Total transaction with owners		–	–	–	–	(2,130)	(2,130)
At 31 December 2016		74,409	(32,763)	293	21,466	27,941	91,346

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of **Changes in Equity**

Year ended 31 December 2017

	Note	Share capital $'000	Treasury shares	Merger deficit $'000	Translation reserve $'000	Revaluation reserve $'000	Accumulated profits $'000	Total equity $'000
At 1 January 2017		74,409	–	(32,763)	293	21,466	27,941	91,346
Total comprehensive income for the year								
Loss for the year		–	–	–	–	–	(15,312)	(15,312)
Other comprehensive income								
Translation differences relating to financial statements of foreign operations		–	–	–	(109)	–	–	(109)
Revaluation surplus of property, plant and equipment		–	–	–	–	1,095	–	1,095
Tax on revaluation surplus		–	–	–	–	(186)	–	(186)
Total other comprehensive income for the year		–	–	–	(109)	909	–	800
Total comprehensive income for the year		–	–	–	(109)	909	(15,312)	(14,512)
Transactions with owners, recognised directly in equity								
Distributions to owners								
Purchase of treasury shares		–	(92)	–	–	–	–	(92)
Dividends	11	–	–	–	–	–	(497)	(497)
Total transactions with owners		–	(92)	–	–	–	(497)	(589)
At 31 December 2017		74,409	(92)	(32,763)	184	22,375	12,132	76,245

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of **Cash Flows**

Year ended 31 December 2017

	Note	Group 2017 $'000	Group 2016 $'000
Cash flows from operating activities			
Loss before tax		(14,324)	(17,814)
Adjustments for:			
Depreciation of property, plant and equipment	4	7,146	5,013
(Gain)/Loss on disposal of property, plant and equipment	18	(633)	114
Allowance for impairment loss on plant and equipment		3,601	8,258
Interest income	18	(80)	(278)
Interest expense	19	878	857
		(3,412)	(3,850)
Changes in:			
- inventories		437	149
- trade and other receivables		(1,271)	7,770
- trade and other payables		(871)	(1,789)
Cash (used in)/from operations		(5,117)	2,280
Income tax paid		(525)	(274)
Net cash (used in)/from operating activities		(5,642)	2,006
Cash flows from investing activities			
Purchase of property, plant and equipment		(13,189)	(5,228)
Proceeds from disposal of property, plant and equipment		2,736	484
Interest received		80	278
Net cash used in investing activities		(10,373)	(4,466)
Cash flows from financing activities			
Interest paid		(878)	(857)
Dividends paid		(497)	(2,130)
Purchase of treasury shares		(92)	–
Repayment of finance lease liabilities		(4,541)	(3,501)
Repayment of term loans		(6,117)	(3,779)
Proceeds from term loans		12,500	–
Deposits withdrawn/(pledged)		3,030	(3,009)
Net cash from/(used in) financing activities		3,405	(13,276)
Net decrease in cash and cash equivalents		(12,610)	(15,736)
Cash and cash equivalents at 1 January		16,382	32,106
Effect of exchange rate fluctuations on cash held		(44)	12
Cash and cash equivalents at 31 December	9	3,728	16,382
Significant non-cash transactions			
Purchase of property, plant and equipment under finance leases and term loans		2,534	7,158

The accompanying notes form an integral part of these financial statements.

Notes to **the Financial Statements**

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 29 March 2018.

1 Domicile and activities

Kim Heng Offshore & Marine Holdings Limited (the "Company" or "KHOMH"), is a company incorporated in the Republic of Singapore. The address of the Company's registered office is 9 Pandan Crescent, Singapore 128465.

The financial statements of the Group as at and for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The principal activity of the Company is that of an investment holding company.

The principal activities of subsidiaries are as follows:

Name of company	Principal activities
Kim Heng Offshore & Marine Pte. Ltd. ("KHOM")	Investment holding
Kim Heng Marine & Oilfield Pte Ltd ("KHMO")	Chartering, freight, servicing and repair of vessels, provision of services of marine engineers, consultants, sub-contractors and labour supply
Kim Heng Maritime Pte Ltd ("KHM")	Vessel chartering and provision of port operation services
Kim Heng Tubulars Pte Ltd ("KHT")	Trading in drill pipes and related drilling materials, provision of services and rental of marine equipment
Kim Heng Shipbuilding & Engineering Pte. Ltd. ("KHSE")	Offshore engineering, shipbuilding and fabrication services
Alpine Progress Shipping Pte. Ltd. ("APS")	Vessel chartering and provision of port operating services
Kim Heng Heavy Equipment Pte. Ltd. ("KHHE")	Lease, sale, repair and maintenance and after sale services of cranes and industrial equipments
KH Mazu Offshore & Marine Sdn Bhd ("KH Mazu")	Repairing and/or docking of ships and other kinds of vessels, supply chain and crew management, heavy-lift equipment, rental and investment holding

Notes to **the Financial Statements**

1 Domicile and activities (Cont'd)

Name of company	Principal activities
Bridgewater 130 Pte. Ltd. ("BW130")	Ship ownership and provision of ship chartering and marine support services
Bridgewater 131 Pte. Ltd. ("BW131")	Ship ownership and provision of ship chartering and marine support services
Bridgewater 132 Pte. Ltd. ("BW132")	Ship ownership and provision of ship chartering and marine support services

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards ("FRSs").

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described in the notes below.

2.3 Functional and presentational currency

These financial statements are presented in Singapore dollars, which is the Company's functional currency. All financial information presented in Singapore dollars have been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

- Note 4 – carrying values of property, plant and equipment
- Note 6 – impairment of investments in subsidiaries
- Note 8 – allowance for doubtful receivables
- Note 21 – tax expense

2 Basis of preparation (Cont'd)

2.4 Use of estimates and judgements (Cont'd)

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. Management has overall responsibility for all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses and documents the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of FRS, including the level in the fair value hierarchy in which the valuations should be classified.

Significant valuation issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (with Level 3 being the lowest).

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following note 16 – financial instruments.

2.5 Changes in accounting policies

The Group has applied the following amendments for the first time for the annual period beginning on 1 January 2017.

Disclosure initiative (Amendments to FRS 7)

From 1 January 2017, as a result of the amendments to FRS 7, the Group has provided additional disclosure in relation to the changes in liabilities arising from financing activities for the year ended 31 December 2017. Comparative information has not been presented (See note 13).

Notes to **the Financial Statements**

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, except as explained in note 2.5, which addresses changes in accounting policies.

3.1 Basis of consolidation

(i) *Business combinations*

Business combinations are accounted for using the acquisition method in accordance with FRS 103 *Business Combination* as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the date of acquisition as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests ("NCI") in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree,

over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the date of acquisition and included in the consideration transferred. If the contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

NCI that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the NCI's proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the date of acquisition. The measurement basis taken is elected on a transaction-by-transaction basis. All other NCI are measured at acquisition-date fair value, unless another measurement basis is required by FRSs.

3 Significant accounting policies (Cont'd)

3.1 Basis of consolidation (Cont'd)

(i) *Business combinations (Cont'd)*

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss. Adjustments to NCI arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(ii) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(iii) *Acquisitions from entities under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any gain/loss arising is recognised directly in equity.

(iv) *Loss of control*

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(vi) *Subsidiaries in the separate financial statements*

Investments in subsidiaries are stated in the Company's statement of financial position at cost less accumulated impairment losses.

Notes to **the Financial Statements**

3 Significant accounting policies (Cont'd)

3.2 Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to Singapore dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Singapore dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interests in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to NCI.

3.3 Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

3 Significant accounting policies (Cont'd)

3.3 Financial instruments (Cont'd)

(i) Non-derivative financial assets (Cont'd)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realise the assets and settle the liability simultaneously.

The Group classifies its non-derivative financial assets as loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables, and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. For the purpose of the statement of cash flows, pledged deposits are excluded whilst bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

(ii) Non-derivative financial liabilities

All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies its non-derivative liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, and trade and other payables.

Notes to **the Financial Statements**

3 Significant accounting policies (Cont'd)

3.3 Financial instruments (Cont'd)

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Dividends on ordinary shares are a liability in the period in which they are declared.

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own share account. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in non-distributable capital reserve.

(iv) Financial guarantees

Financial guarantee contracts are regarded as insurance contracts under which the Group accepts significant insurance risk from a third party by agreeing to compensate that party on the occurrence of a specified uncertain future event. Provisions are recognised when it is probable that the guarantee will be called upon and an outflow of resources embodying economic benefits will be required to settle the obligations.

3.4 Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses except for leasehold land and buildings which are stated at revalued amounts.

Leasehold land and buildings are measured at revalued amounts less accumulated depreciation and accumulated impairment losses. Any gain arising on remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognised immediately in the profit or loss. When the property is sold, the related amount in the revaluation reserve is transferred to retained earnings.

3 Significant accounting policies (Cont'd)

3.4 Property, plant and equipment (Cont'd)

(i) Recognition and measurement (Cont'd)

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:

- the cost of materials and direct labour;
- any other costs directly attributable to bring the asset to a working condition for its intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the cost of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, unless it is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Property, plant and equipment under construction are not depreciated.

Notes to **the Financial Statements**

3 Significant accounting policies (Cont'd)

3.4 Property, plant and equipment (Cont'd)

(iii) Depreciation (Cont'd)

The estimated useful lives for the current and comparative years are as follows:

Leasehold lands and buildings	remaining lease term of 19 - 20 years
Renovation and improvements	5 years
Machinery and equipment	3 - 20 years
Vessels	5 - 20 years
Motor vehicles	5 years
Furniture, fittings, office equipment and computers	3 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting period and adjusted if appropriate.

3.5 Club memberships

Club memberships are stated at cost less allowance for impairment losses.

3.6 Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's statement of financial position.

3.7 Inventories and work-in-progress

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. Allowance is made for all deteriorated, damaged and slow-moving inventories.

Work-in-progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date on uncompleted shipbuilding, repair and fabrication contracts. They are measured at cost plus profit recognised to date (see note 3.10(iv)) less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects incurred in the Group's contract activities based on normal operating capacity.

Work-in-progress is presented as part of inventories in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as part of trade and other payables in the statement of financial position.

3 Significant accounting policies (Cont'd)

3.8 Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event(s) has occurred after the initial recognition of the asset, and that the loss event(s) has an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers.

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

3 Significant accounting policies (Cont'd)

3.8 Impairment (Cont'd)

(ii) Non-financial assets (Cont'd)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of assets in the CGU on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.9 Non-current assets held for sale

Non-current assets that are highly probable to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, the assets classified as held for sale are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Property, plant and equipment once classified as held for sale are not depreciated.

3.10 Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

3 Significant accounting policies (Cont'd)

3.10 Employee benefits (Cont'd)

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(iii) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for leave as a result of services rendered by employees up to the reporting date.

3.11 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3.12 Revenue recognition

(i) Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale.

(ii) Chartering, towage and rental of equipment

Chartering and towage income, and equipment rental income are recognised on an accrual basis over the period for which the vessels are chartered and the period of rental of equipment, respectively.

(iii) Rendering of services

Revenue from marine offshore support services and freight service income is recognised upon rendering of services.

3 Significant accounting policies (Cont'd)

3.12 Revenue recognition (Cont'd)

(iv) Contract revenue

Revenue arising from shipbuilding and fabrication contracts is recognised in profit or loss in accordance with the agreed stage of completion which is assessed by reference to survey of work performed and agreement with customers or the proportion of contract costs incurred for work performed to date to the estimated total contract costs, to the extent that it is probable that the contracts will result in revenue that can be measured reliably. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and associated costs.

3.13 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

3 Significant accounting policies (Cont'd)

3.14 Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings. Borrowing costs are recognised in profit or loss using the effective interest method.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

3.15 Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3 Significant accounting policies (Cont'd)

3.15 Tax (Cont'd)

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.16 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

3.17 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO (the chief operating decision maker) to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office expenses, and tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

3.18 Full convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) adoption of new standards

Applicable to 2018 financial statements

In December 2017, the Accounting Standards Council (ASC) issued the Singapore Financial Reporting Standards (International) (SFRS(I)). SFRS(I) comprises standards and interpretations that are equivalent to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) at 31 December 2017 that are applicable for annual period beginning on 1 January 2018. Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I) with effect from annual periods beginning on or after 1 January 2018.

3 Significant accounting policies (Cont'd)

3.18 Full convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) adoption of new standards (Cont'd)

Applicable to 2018 financial statements (Cont'd)

The Group's financial statements for the financial year ending 31 December 2018 will be prepared in accordance with the SFRS(I). As a result, this will be the last set of financial statements prepared under the current FRS.

In adopting the new framework, the Group will be required to apply the specific transition requirements in SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)*.

In addition to the adoption of the new framework, the Group will also concurrently apply the following SFRS(I)s, interpretations of SFRS(I)s and requirements of SFRS(I)s which are mandatorily effective from the same date.

- SFRS(I) 15 Revenue from Contracts with Customers which includes the clarifications to IFRS 15 Revenue from Contracts with Customers issued by the IASB in April 2016;SFRS(I) *Financial Instruments*;
- SFRS(I) 9 Financial Instruments which includes the amendments to IFRS 4 Insurance Contracts – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts issued by the IASB in September 2016;

The Group does not expect the application of the above standards and interpretations to have a significant impact on the financial statements.

SFRS(I) 1

When the Group adopts SFRS(I) in 2018, the Group will apply SFRS(I) 1 with 1 January 2017 as the date of transition for the Group and the Company. SFRS(I) 1 generally requires that the Group applies SFRS(I) on a retrospective basis, as if such accounting policy had always been applied. If there are changes to accounting policies arising from new or amended standards effective in 2018, restatement of comparatives may be required because SFRS(I) 1 requires both the opening balance sheet and comparative information to be prepared using the most current accounting policies. SFRS(I) 1 provides mandatory exceptions and optional exemptions from retrospective application, but these are often different from those specific transition provisions in individual FRSs applied to the FRS financial statements. Except as described below, the Group does not expect the application of the mandatory exceptions and the optional exemptions in SFRS(I) 1 to have any significant impact on the financial statements.

(i) Fair value as deemed cost for leasehold lands and buildings classified as property, plant and equipment

The Group plans to elect the optional exemption in SFRS(I) 1 to measure the leasehold lands and buildings held by the Company at the date of transition to SFRS(I) at fair value and use that fair value as its deemed costs in its SFRS(I) financial statements.

The fair value of the leasehold lands and buildings were determined by an external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The Group expects the carrying amount of leasehold lands and buildings and retained earnings of the Group and of the Company to increase by $21,466,000 as at 1 January 2017.

Notes to **the Financial Statements**

3 Significant accounting policies (Cont'd)

3.18 Full convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) adoption of new standards (Cont'd)

SFRS(I) 1 (Cont'd)

(ii) Foreign currency translation reserve (FCTR)

The Group plans to elect the optional exemption in SFRS(I) to reset its cumulative FCTR for all foreign operations to nil at the date of transition, and reclassify the cumulative FCTR of $293,000 as at 1 January 2017 determined in accordance with FRS at that date to retained earnings. After the date of transition, any gain or loss on disposal of any foreign operations will exclude translation differences that arose before the date of transition.

The Group expects the cumulative FCTR to decrease by $184,000 and retained earnings to increase by the same amount as at 31 December 2017.

The impact assessment of adopting SFRS(I) is preliminary because accounting policy and transition choices can continue be made until 31 December 2018. The Group believes that it is unlikely that the Group will change any of the decisions but the Group cannot forsee all circumstances that might result in such a change.

SFRS(I) 15

SFRS(I) 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met.

The Group plans to adopt SFRS(I) 15 in its financial statements for the year ending 31 December 2018, using the retrospective approach. As a result, the Group will apply all of the requirements of SFRS(I) 15 retrospectively, except as described below, and the comparative period presented in the 2018 financial statements will be restated.

The Group plans to use the practical expedients for completed contracts. This means that completed contracts that began and ended in the same comparative reporting period, as well as completed contracts at the beginning of the earliest period presented, are not restated.

The Group does not expect the adoption of SFRS(I) 15 to have significant impact on the financial statements.

SFRS(I) 9

SFRS(I) 9 contains new requirements for classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirement.

3 Significant accounting policies (Cont'd)

3.18 Full convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) adoption of new standards (Cont'd)

SFRS(I) 9 (Cont'd)

Changes in accounting policies resulting from the adoption of SFRS(I) 9 will generally be applied by the Group retrospectively, except as described below.

- The Group plans to take advantage of the exemption in SFRS(I) 1 allowing it not to restate comparative information in the 2018 SFRS(I) financial statements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SFRS(I) 9 are recognised in retained earnings and reserves as at 1 January 2018.

- The following assessments have to be made on the basis of facts and circumstances that existed at 1 January 2018.

  – The determination of the business model within which a financial asset is held.

  – The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(i) Impairment

SFRS(I) 9 replaces the current 'incurred loss' model with a forward-looking expected credit loss (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or fair value through other comprehensive income, except for investments in equity instruments, and certain loan commitments and financial guarantee contracts.

Under SFRS(I) 9, loss allowances of the Group will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12months after the reporting date; or
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group plans to apply the simplified approach and record lifetime ECL on all trade receivables and any contract assets arising from the application of SFRS(I) 15.

The Group does not expect the adoption of SFRS(I) 9 to have significant impact on the financial statements.

Notes to **the Financial Statements**

3 Significant accounting policies (Cont'd)

3.18 Full convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) adoption of new standards (Cont'd)

Applicable to financial statements for the year 2019 and thereafter

The following new SFRS(I), amendments to and interpretations of SFRS(I) are effective for annual periods beginning after 1 January 2018:

Applicable to 2019 financial statements

- SFRS(I) 16 *Leases*
- SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*

Applicable to 2021 financial statements

- SFRS(I) 17 *Insurance Contracts*

Mandatory effective date deferred

- *Sale or Contribution of Assets between an Investor and its Associate or Joint* Venture (Amendments to SFRS(I) 10 and SFRS(I) 1-28).

The Group is still in the process of assessing the impact of the new SFRS(I)s, amendments to and interpretations of SFRS(I)s on the financial statements. The Group's preliminary assessment of SFRS(I) 16, which is expected to have a more significant impact on the Group, is as described below.

SFRS(I) 16

SFRS(I) 16 replaces existing lease accounting guidance. SFRS(I) 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted if SFRS(I) 15 is also applied. SFRS(I) 16 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use (ROU) assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Group plans to adopt the standard when it becomes effective in 2019 and expects to apply the standard using the modified retrospective approach. The Group also expects the ROU assets recognised at date of initial application to be equal to their lease liabilities.

The Group is likely to elect the practical expedient not to reassess whether a contract contains a lease at the date of initial application, 1 January 2019. Accordingly, existing lease contracts that are still effective on 1 January 2019 continue to be accounted for as lease contracts under IFRS 16. The Group has performed a preliminary assessment of the impact on its financial statements based on its existing operating lease arrangements (refer to note 24).

Until 2018, the approximate financial impact of the standard is unknown due to factors that impact calculation of lease liabilities such as discount rate, expected term of leases including renewal options and exemptions for short-term leases. The Group will continue to assess its portfolio of leases to calculate the impending impact of transition to the new standard.

3 Significant accounting policies (Cont'd)

3.18 Full convergence with Singapore Financial Reporting Standards (International) (SFRS(I)) adoption of new standards (Cont'd)

SFRS(I) 16 (Cont'd)

(i) The Group as lessee

The Group expects its existing operating lease arrangements to be recognised as ROU assets with corresponding lease liabilities under SFRS(I) 16. The operating lease commitments on an undiscounted basis amount to approximately 18.68% of the consolidated total assets and 47.55% of consolidated total liabilities. Under the new standard, remaining lease payments of the operating leases will be recognised at their present value discounted using appropriate discount rate. In addition, the nature of expenses related to those leases will now change as SFRS(I) 16 replaces the straight-line operating lease expense with depreciation charge of ROU assets and interest expense on lease liabilities.

(ii) The Group as lessor

SFRS(I) 16 substantially carries forward the current existing lessor accounting requirements. Accordingly, the Group continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the existing operating lease and finance lease accounting models respectively. However, SFRS(I) 16 requires more extensive disclosures to be provided by a lessor.

Notes to **the Financial Statements**

4 Property, plant and equipment

Group	Note	Leasehold lands and buildings $'000	Renovations and improvements $'000	Machinery and equipment $'000	Vessels $'000	Furnitures, fittings, office equipment and computers $'000	Assets under construction $'000	Total $'000
Cost								
At 1 January 2016		7,123	556	56,601	44,586	1,778	10,458	121,102
Additions		–	–	1,043	2,098	136	9,109	12,386
Disposals		–	(401)	(7,216)	(616)	(992)	–	(9,225)
Revaluation of leasehold land and buildings		25,863	–	–	–	–	–	25,863
Reclassifications		12,571	–	–	5,353	–	(17,924)	–
Translation differences		–	(12)	–	–	(11)	–	(23)
At 31 December 2016		45,557	143	50,428	51,421	911	1,643	150,103
Additions		332	–	1,375	13,261	88	667	15,723
Disposals		–	(143)	(4,733)	(1,057)	(192)	–	(6,125)
Revaluation of leasehold land and buildings		(4,921)	–	–	–	–	–	(4,921)
Reclassifications		80	–	54	–	787	(921)	–
Reclassification to assets held for sale	10	–	–	(16,521)	(1,879)	–	–	(18,400)
Translation differences		–	–	(1)	(194)	–	–	(195)
At 31 December 2017		41,048	–	30,602	61,552	1,594	1,389	136,185

4 Property, plant and equipment (Cont'd)

Group	Note	Leasehold lands and buildings $'000	Renovations and improvements $'000	Machinery and equipment $'000	Vessels $'000	Furnitures, fittings, office equipment and computers $'000	Assets under construction $'000	Total $'000
Accumulated depreciation and impairment								
At 1 January 2016		3,413	556	23,220	8,457	1,452	–	37,098
Depreciation for the year		469	–	2,313	2,120	111	–	5,013
Disposals		–	(401)	(6,633)	(616)	(978)	–	(8,628)
Impairment loss		–	–	1,137	7,121	–	–	8,258
Translation differences		–	(12)	–	–	(11)	–	(23)
At 31 December 2016		3,882	143	20,037	17,082	574	–	41,718
Depreciation for the year		2,134	–	2,327	2,494	191	–	7,146
Disposals		–	(143)	(3,077)	(613)	(189)	–	(4,022)
Impairment loss	10	–	–	3,489	112	–	–	3,601
Revaluation of leasehold land and buildings		(6,016)	–	–	–	–	–	(6,016)
Reclassification to assets held for sale	10	–	–	(5,521)	(1,172)	–	–	(6,693)
Translation differences		–	–	(1)	(2)	–	–	(3)
At 31 December 2017		–	–	17,254	17,901	576	–	35,731
Carrying amounts								
At 1 January 2016		3,710	–	33,381	36,129	326	10,458	84,004
At 31 December 2016		41,675	–	30,391	34,339	337	1,643	108,385
At 31 December 2017		41,048	–	13,348	43,651	1,018	1,389	100,454

4 Property, plant and equipment (Cont'd)

Assets under construction mainly relate to construction of a building at the Group's yard located at 9 Pandan Crescent, Singapore.

The carrying amounts of property, plant and equipment (including assets held for sale) of the Group as at the reporting date include amounts totalling $14,380,000 in respect of machinery and equipment held under finance leases (2016: $16,271,000).

As at the reporting date, property, plant and equipment amounting to $36,291,000 (2016: $33,860,000) is pledged as collaterals for secured term loans.

On 31 December 2017, the Group remeasured its leasehold land and buildings to fair value and recognised a revaluation gain of $909,000 (net of related tax) in other comprehensive income (2016: $21,466,000). The fair values were determined by an independent professional valuer on an open market value basis. The carrying amount of leasehold land and buildings, had the assets been carried under the cost model is $15,439,000 (2016: $17,160,000).

	Furniture, fittings, office equipment and computers $'000
Company	
Cost	
At 1 January 2016, 31 December 2016 and 31 December 2017	6
Accumulated depreciation	
At 1 January 2016	4
Depreciation charge for the year	2
At 31 December 2016 and 31 December 2017	6
Carrying amounts	
At 1 January 2016	2
At 31 December 2016 and 31 December 2017	–

Depreciation and impairment of property, plant and equipment

The cost of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be ranging from 1 year to 20 years. The Group reviews annually the estimated useful lives of property, plant and equipment based on factors that include asset utilisation, internal technical evaluation, technological changes and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase depreciation expense and decrease non-current assets.

Notes to **the Financial Statements**

4 Property, plant and equipment (Cont'd)

In view of the recurring losses in difficult industry conditions and the Group's market capitalisation being lower than its net assets as at 31 December 2017, the Group performed an impairment assessment of its property, plant and equipment. The estimated recoverable amounts are based on valuation reports obtained from independent professional valuers, being the estimated amount for which the property, plant and equipment could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The recoverable amounts were estimated based on fair value less costs of disposal using external valuations performed by independent professional valuers, having appropriate recognised professional qualifications and experience in the assets being valued. An impairment loss of $nil (2016: $8,258,000) was recognised in the profit or loss. The recoverable amounts could change significantly as a result of changes in market conditions and the assumptions used in determining the market value.

5 Club memberships

	Group	
	2017	2016
	$'000	$'000
Cost	108	108
Impairment losses	(62)	(62)
	46	46

6 Subsidiaries

	Company	
	2017	2016
	$'000	$'000
Equity investments at cost	36,133	36,133

Details of the subsidiaries are as follows:

Name of subsidiary	Principal place of business/Country of incorporation	Effective equity held by the Company	
		2017	2016
		%	%
Kim Heng Offshore & Marine Pte. Ltd.*	Republic of Singapore	100	100
Kim Heng Marine & Oilfield Pte Ltd*	Republic of Singapore	100	100
Kim Heng Maritime Pte Ltd*	Republic of Singapore	100	100
Kim Heng Tubulars Pte Ltd*	Republic of Singapore	100	100

Notes to **the Financial Statements**

6 Subsidiaries (Cont'd)

Name of subsidiary	Principal place of business/Country of incorporation	Effective equity held by the Company 2017 %	Effective equity held by the Company 2016 %
Kim Heng Shipbuilding & Engineering Pte. Ltd.*	Republic of Singapore	100	100
Alpine Progress Shipping Pte. Ltd.*	Republic of Singapore	100	100
Kim Heng Heavy Equipment Pte. Ltd.*	Republic of Singapore	100	100
KH Mazu Offshore & Marine Sdn Bhd#	Malaysia	50 ^	50 ^
Bridgewater 130 Pte. Ltd.*	Republic of Singapore	100	–
Bridgewater 131 Pte. Ltd.*	Republic of Singapore	100	–
Bridgewater 132 Pte. Ltd.*	Republic of Singapore	100	–

* Audited by KPMG LLP, Singapore
\# Audited by a member firm of KPMG International
^ Although KHOM holds 50% of the share capital of KH Mazu, the management has determined that KHOM fully controls KH Mazu. The remaining 50% of the share capital is held by a nominee director in trust and beneficial interest of the Group. KHOM will receive all of the returns related to KH Mazu's operations and its net assets and has the current ability to direct KH Mazu's activities that most significantly affect these returns. Accordingly, the Group has consolidated KH Mazu as a wholly owned subsidiary.

Impairment of investments in subsidiaries

The carrying values of the investments in subsidiaries are reviewed for impairment whenever there is any indication that the investment is impaired. If an indication of impairment exists, the investment's recoverable amount is estimated in accordance with the accounting policy described in note 3.8. This determination requires significant judgement. The Company evaluates, amongst other factors, the future profitability of the subsidiaries, the financial health and the near-term business outlook including factors such as industry performance and operational and financing cash flows. The recoverable amount of the investment could change significantly as a result of changes in market conditions and assumptions used in determining the recoverable amount.

7 Inventories

	Group 2017 $'000	Group 2016 $'000
Raw materials	–	296
Finished goods	1,550	1,874
	1,550	2,170
Allowance for inventory obsolescence	(1,357)	(1,540)
	193	630

Changes in inventories recognised in cost of sales in profit or loss amounted to $513,000 (2016: $44,000).

8 Trade and other receivables

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Trade receivables	13,752	14,434	–	–
Allowance for impairment loss	(8,093)	(8,601)	–	–
Net receivables	5,659	5,833	–	–
Deposits	723	414	–	–
Accrued revenue	932	238	715	1,328
Amounts due from subsidiaries:				
- Trade	–	–	1,111	3,452
- Non-trade	–	–	40,335	25,271
Other receivables	1,126	1,069	2	13
Loans and receivables	8,440	7,554	42,163	30,064
Prepayments	279	276	11	88
Advance payment to suppliers	34	–	–	–
	8,753	7,830	42,174	30,152

Amounts due from subsidiaries

Outstanding balances with subsidiaries are unsecured, interest-free and are repayable on demand. There is no allowance for doubtful debts arising from these outstanding balances.

Credit and market risks, and impairment losses

The Group's exposure to credit and currency risks, and impairment losses for trade and other receivables is disclosed in note 16.

Allowance for doubtful receivables

The Group maintains an allowance for doubtful debts on the estimated losses resulting from the subsequent inability of the Group's customers to make the required payments, at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectability of the individual accounts. Management specifically analysed accounts receivables and analysed historical bad debts, customer creditworthiness, current economic trends, changes in customer payment terms, customer defaults on payment terms, legal proceedings and other available information when evaluating the adequacy of allowance for doubtful debts. The amount and timing of recorded expenses for any period would differ if the Group made different judgement or utilised different estimates. An increase in the Group's allowance for doubtful debts would increase the Group's recorded other expenses and decrease current assets.

Notes to **the Financial Statements**

9 Cash and cash equivalents

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Cash at bank and in hand	3,716	4,338	182	592
Fixed deposits	689	15,751	–	12,044
Cash and cash equivalents	4,405	20,089	182	12,636
Deposits pledged	(677)	(3,707)	–	–
Cash and cash equivalents in the statement of cash flows	3,728	16,382	182	12,636

The fixed deposit amounting to $400,000 is pledged as security deposit for its office premises and warehouse (2016: $406,000). The remaining fixed deposits amounting to $277,000 are pledged to secure term loans and finance lease liabilities (2016: $3,301,000) (see note 13).

The Group's exposure to interest rate and currency risks is disclosed in note 16.

10 Assets held for sale

During the year, management committed to a plan to sell a vessel and the cranes. Accordingly, the assets are presented as assets held for sale.

Impairment losses of $3,601,000 (see note 4) for the write-down of the assets to the lower of its carrying amount and its fair value less cost to sell have been included in "other expenses" in the profit of loss.

11 Share capital

	2017	2016
	No. of shares	No. of shares
	'000	'000
Issued and fully paid ordinary shares, with no par value:		
At 1 January	710,000	710,000
Purchase of treasury shares	(949)	–
At 31 December	709,051	710,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group. All shares rank equally with regard to the Group's residual assets.

All issued shares are fully paid, with no par value.

Notes to **the Financial Statements**

11 Share capital (Cont'd)

Capital management

The Group defines "capital" as its share capital and reserves. The primary objective of the Group's capital management is to ensure that it maintains a sound capital base to support its business and maximise shareholders' value. The Board of Directors monitors the revenue, profit or loss before tax and hence, the return on capital.

The Board of Directors ensures that the Group is adequately capitalised in order to meet its contractual obligations. There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements except for a subsidiary whose loan facilities require the subsidiary to maintain its financial position in excess of specified financial thresholds at all times. The subsidiary complied with these covenants at the reporting date.

Dividends

The Group declared and paid dividends as follows:

	Group and Company	
	2017	2016
	$'000	$'000
Final tax exempt one-tier dividend of $0.003 per ordinary share proposed for financial year ended 31 December 2015 and paid in FY2016	–	2,130
Final tax exempt one-tier dividend of $0.007 per ordinary share proposed for financial year ended 31 December 2016 and paid in FY2017	497	–
	497	2,130

The Board recommended for the shareholders' approval at the Annual General Meeting of the Company an exempt (one-tier) final dividend of $496,000 (2016: $497,000) for the financial year ended 31 December 2017 representing approximately $0.0007 (2016: $0.0007) per share. The exempt (one-tier) final dividend has not been provided for in the financial statements.

12 Reserves

The reserves of the Group comprise the following balances:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Treasury shares	(92)	–	(92)	–
Merger deficit	(32,763)	(32,763)	–	–
Translation reserve	184	293	–	–
Revaluation reverse	22,375	21,466	–	–
	(10,296)	(11,004)	(92)	–

Notes to **the Financial Statements**

12 Reserves (Cont'd)

Treasury shares

Treasury shares relate to ordinary shares of the Company that are held by the Company.

During the financial year, the Company purchased 949,200 of its ordinary shares by way of on-market purchases at share prices ranging from $0.090 to 0.099. The total amount paid to purchase the shares was $92,000.

Merger deficit

The merger deficit arises from the difference between the nominal value of the shares issued by the Company and the nominal value of shares of the subsidiaries acquired under the pooling-of-interest method of consolidation as described in Note 3.1(iii).

Translation reserve

The translation reserve comprises the foreign exchange differences arising from the translation of financial statements of operations whose functional currencies are different from the presentation currency of the Group.

Revaluation reserve

The revaluation reserve relates to the revaluation of land and buildings and its related tax.

13 Loans and borrowings

	Group	
	2017	**2016**
	$'000	**$'000**
Non-current liabilities		
Term loans	17,440	12,924
Finance lease liabilities	453	4,629
	17,893	17,553
Current liabilities		
Term loans	6,517	4,650
Finance lease liabilities	4,993	2,824
	11,510	7,474

The banking facilities for term loans and finance lease liabilities are secured as follows:

- Corporate guarantees by the Company amounted to $56,487,000; and
- Property, plant and equipment and fixed deposits as disclosed in notes 4 and 9 respectively.

Notes to **the Financial Statements**

13 Loans and borrowings (Cont'd)

At the reporting date, the Group had obligations under finance leases that are payable as follows:

	Future minimum lease payment $'000	Interest $'000	Present value of minimum lease payments $'000
2017			
Payable within 1 year	4,993	271	5,264
Payable after 1 year but within 5 years	416	32	448
Payable after 5 years	37	1	38
	5,446	304	5,750
2016			
Payable within 1 year	2,824	195	3,019
Payable after 1 year but within 5 years	4,532	218	4,750
Payable after 5 years	97	1	98
	7,453	414	7,867

Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings are as follows:

	Nominal interest rate %	Year of maturity	Face value $'000	Carrying amount $'000
2017				
Term loans				
- Fixed rate	1.80 – 5.50	2018 – 2023	9,889	9,889
- Floating rate	Cost of fund +1.75%, 3 months cost of fund +1.50%	2022 – 2026	14,068	14,068
Finance lease liabilities	1.50 – 3.50	2018 – 2024	5,750	5,446
			29,707	29,403
2016				
Term loans				
- Fixed rate	1.80 – 2.25	2018 – 2020	4,431	4,431
- Floating rate	Prime rate, cost of fund +2.00%, 3 months cost of fund +1.50%	2017 – 2026	13,143	13,143
Finance lease liabilities	1.35 – 2.99	2017 – 2022	7,867	7,453
			25,441	25,027

Information about the Group's exposure to interest rate and liquidity risks is disclosed in note 16.

13 Loans and borrowings (Cont'd)

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities	Equity		
	Loans and borrowings $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2017	25,027	(11,004)	27,941	41,964
Changes from financing cash flows				
Interest paid	(878)	–	–	(878)
Dividend paid	–	–	(497)	(497)
Purchase of treasury shares	–	(92)	–	(92)
Repayment of finance lease liabilities	(4,541)	–	–	(4,541)
Repayment of term loans	(6,117)	–	–	(6,117)
Proceeds from term loans	12,500	–	–	12,500
Total changes from financing cash flows	964	(92)	(497)	375
The effect of changes in foreign exchange rates	–	(109)	–	(109)
Change in fair value	–	909		909
Other changes				
Liability-related				
New finance lease	2,534	–	–	2,534
Interest expense	878	–	–	878
Total liability-related other changes	3,412	–	–	3,412
Total equity-related other changes	–	–	(15,312)	(15,312)
Balance at 31 December 2017	29,403	(10,296)	12,132	31,239

14 Deferred tax liabilities

Deferred tax assets and liabilities of the Group (prior to offsetting of balances) during the year are as follows:

	At 1 January $'000	Recognised in other comprehensive income $'000	Recognised in profit or loss (Note 21) $'000	At 31 December $'000
2017				
Deferred tax liabilities				
Property, plant and equipment	11,141	186	(777)	10,550
Deferred tax assets				
Accruals	(78)	–	–	(78)
Receivables	(777)	–	777	–
	(855)	–	777	(78)
	10,286	186	–	10,472

Notes to **the Financial Statements**

14 Deferred tax liabilities (Cont'd)

	At 1 January $'000	Recognised in other comprehensive income $'000	Recognised in profit or loss (Note 21) $'000	At 31 December $'000
2016				
Deferred tax liabilities				
Property, plant and equipment	6,744	4,397	–	11,141
Deferred tax assets				
Accruals	(78)	–	–	(78)
Receivables	(777)	–	–	(777)
	(855)	–	–	(855)
	5,889	4,397	–	10,286

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The amounts determined after appropriate offsetting are included in the statements of financial position as follows:

	Group	
	2017 $'000	2016 $'000
Deferred tax liabilities	10,472	10,286

As at the reporting date, no deferred tax assets have been recognised in respect of the following temporary differences:

	Group	
	2017 $'000	2016 $'000
Unutilised tax losses	11,753	5,451
Unutilised capital allowances	1,780	–
	13,533	5,451

The unutilised tax losses and unabsorbed capital allowances are available for set-off against future taxable profits subject to compliance with the Singapore Income Tax Act Chapter 134. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

15 Trade and other payables

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Trade payables	5,228	5,565	123	95
Accrued operating expenses	3,056	3,459	129	168
Advance billings	41	550	–	–
Deposits from customers	516	590	–	–
Other payables	92	115	–	–
	8,933	10,279	252	263

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 16.

16 Financial risk management

The Group has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. Management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables.

The Group has a credit policy in place which establishes credit limits for customers and monitors their balances on an ongoing basis. Credit evaluations are performed on all new customers.

16 Financial risk management (Cont'd)

The carrying amounts of the financial assets in the statement of financial position represent the Group's maximum exposure to credit risk. The maximum exposure to credit risk at the reporting date was:

		Group		Company	
	Note	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Trade and other receivables	8	8,440	7,554	42,163	30,064
Cash and cash equivalents	9	4,405	20,089	182	12,636
		12,845	27,643	42,345	42,700

The maximum exposure to credit risk for loans and receivables (excluding cash and cash equivalents) at the reporting date (by geographical region) was:

	Group		Company	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Singapore	6,473	1,897	42,162	30,063
Southeast Asia excluding Singapore	1,302	4,262	1	1
Australasia	70	271	–	–
Middle East	4	16	–	–
Europe and others	591	1,108	–	–
	8,440	7,554	42,163	30,064

At reporting date, the Group has a concentration of credit risk with 9 customers (2016: 7 customers) engaged in the Oil and Gas sector accounting for approximately 41% (2016: 44%) of the total trade receivables.

The ageing of loans and receivables at the reporting date was:

	Gross 2017 $'000	Impairment losses 2017 $'000	Gross 2016 $'000	Impairment losses 2016 $'000
Group				
Not past due	4,567	–	3,462	–
Past due 0 – 30 days	1,019	(65)	1,533	–
Past due 31 – 120 days	2,207	(377)	1,512	–
More than 120 days	8,740	(7,651)	9,648	(8,601)
	16,533	(8,093)	16,155	(8,601)
Company				
Not past due	42,163	–	30,064	–

16 Financial risk management (Cont'd)

The movements in the allowance for impairment loss in respect of loans and receivables during the year were as follows:

	Group	
	2017	2016
	$'000	$'000
At 1 January	8,601	8,074
Impairment loss recognised	1,360	884
Utilised	(1,658)	(419)
Translation differences	(210)	62
At 31 December	8,093	8,601

Based on the Group's monitoring of customer credit risk, the Group believes that, apart from the above, no additional impairment allowance is necessary in respect of trade receivables.

The cash and cash equivalents are held with reputable banks and financial institutions which are regulated.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

To ensure the continuity of funding, the Group's policy is to use a mix of long-term and short-term financing. Short-term funding is obtained through overdrafts. Long-term funding is primarily used for acquisition of property, plant and equipment. The Group evaluates various alternative financing arrangements to balance its debt leverage.

As at 31 December 2017, included in total assets of the Group at the reporting date are net trade receivables totalling $5,659,000 (2016: $5,833,000) and assets held for sale totalling to approximately $11,707,000. The Group monitors current and expected liquidity requirements to ensure that it maintains sufficient working capital and adequate external financing to meet its liquidity requirements in the short and longer term. The liquidity of the Group is currently dependent on the availability of its banking credit facilities, timely settlement of trade receivables and the completion of sale of Group's assets held for sale as at 31 December 2017. In addition to the availability of unutilised banking credit facilities of $5,000,000 as at the reporting date, the management is also confident in managing the timely collections of outstanding trade receivables as well as the receipt of proceeds from the sale of Group's assets held for sale.

16 Financial risk management (Cont'd)

The following are the contractual maturities of financial liabilities. The amounts are gross and undiscounted, and include contractual interest payments and exclude impact of netting agreements:

		Cash flows			
Group	**Carrying amount $'000**	**Contractual cash flows $'000**	**Within 1 year $'000**	**Within 1 to 5 years $'000**	**More than 5 years $'000**
2017					
Term loans					
- Fixed rate	9,889	(10,839)	(5,209)	(5,140)	(490)
- Floating rate	14,068	(15,867)	(2,080)	(9,018)	(4,769)
Finance lease liabilities	5,446	(5,750)	(5,264)	(448)	(38)
Trade and other payables	8,892	(8,892)	(8,892)	–	–
	38,295	(41,348)	(21,445)	(14,606)	(5,297)
2016					
Term loans					
- Fixed rate	4,431	(4,718)	(1,809)	(2,909)	–
- Floating rate	13,143	(14,717)	(3,153)	(6,125)	(5,439)
Finance lease liabilities	7,453	(7,867)	(3,019)	(4,750)	(98)
Trade and other payables	9,729	(9,729)	(9,729)	–	–
	34,756	(37,031)	(17,710)	(13,784)	(5,537)
Company					
2017					
Trade and other payables	252	(252)	(252)	–	–
2016					
Trade and other payables	263	(263)	(263)	–	–

The maturity analysis show the contractual undiscounted cash flows of the Group and the Company's financial liabilities on the basis of their earliest possible contractual maturity. The cash outflows disclosed relate to those instruments held for risk management purposes and which are usually not closed out prior to contractual maturity.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's profit or loss or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is exposed to currency risk and interest rate risk.

16 Financial risk management (Cont'd)

Currency risk

The Group is exposed to currency risk on sales and purchases, including inter-company sales, purchases and inter-company balances that are denominated in a currency other than the respective functional currencies of Group entities. The currency in which these transactions primarily is denominated is the United States dollar.

The Group's and the Company's exposure to foreign currency is as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
United States dollar				
Trade and other receivables	7,378	8,026	60	65
Cash and cash equivalents	999	2,269	–	–
Trade and other payables	(1,608)	(810)	–	(16)
	6,769	9,485	60	49

The Group does not have a formal policy to hedge its financial assets and liabilities denominated in foreign currencies.

Sensitivity analysis

A 10% strengthening of the United States dollar against the functional currencies of the respective entities within the Group at the reporting date would (increase)/decrease the loss before tax by the amounts below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016 and 2017, albeit that the reasonably possible foreign exchange rate variances may have been different.

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
United States dollar	677	949	6	5

A 10% weakening of the United States dollar against the functional currencies of the respective entities within the Group would have the equal but opposite effect on the loss before tax to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The Group is exposed to changes in interest rates primarily due to the Group's loans and borrowings which are subject to variable interest rates. Interest rate risk is managed by the Group on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates.

16 Financial risk management (Cont'd)

At the reporting date, the interest rate profile of the Group's and the Company's interest bearing financial instruments, as reported to the management, was as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Fixed rate instruments				
Fixed rate loans	(9,889)	(4,431)	–	–
Finance lease liabilities	(5,446)	(7,453)	–	–
	(15,335)	(11,884)	–	–
Variable rate instruments				
Fixed deposits	689	15,751	–	12,044
Floating rate loans	(14,068)	(13,143)	–	–
	(13,379)	2,608	–	12,044

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore, in respect of the fixed rate instruments, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have (increased)/decreased loss before tax of the Group and the Company by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
100 bp increase				
Variable rate instruments	134	(26)	–	(120)
100 bp decrease				
Variable rate instruments	(134)	26	–	120

Notes to **the Financial Statements**

16 Financial risk management (Cont'd)

Estimations of the fair value

The following summarises the significant methods and assumptions used in estimating the fair values of financial assets and liabilities of the Group.

Non-derivative financial liabilities (non-current)

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases and term loans, the market rate of interest is determined by reference to similar lease and loan agreements, respectively.

The carrying amounts of floating interest loans and borrowings, where interest rates reprice within 1 year from reporting date, are assumed to reflect the corresponding fair values of the financial liabilities, given the short repricing period.

Other financial assets and liabilities

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables) are assumed to approximate their fair values due to the short period to maturity.

16 Financial risk management (Cont'd)

Fair values versus carrying amounts

The fair values of the financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Carrying amount				Fair value			
	Loans and receivables $'000	Other financial liabilities $'000	Other financial liabilities outside the scope of FRS 39 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Group								
2017								
Assets								
Trade and other receivables	8,440	–	–	8,440				
Cash and cash equivalents	4,405	–	–	4,405				
	12,845	–	–	12,845				
Liabilities								
Loans and borrowings	–	(23,957)	(5,446)	(29,403)	–	–	(29,155)	(29,155)
Trade and other payables	–	(8,892)	–	(8,892)				
	–	(32,849)	(5,446)	(38,295)				
2016								
Assets								
Trade and other receivables	7,554	–	–	7,554				
Cash and cash equivalents	20,089	–	–	20,089				
	27,643	–	–	27,643				
Liabilities								
Loans and borrowings	–	(17,574)	(7,453)	(25,027)	–	–	(26,585)	(26,585)
Trade and other payables	–	(9,729)	–	(9,729)				
	–	(27,303)	(7,453)	(34,756)				

16 Financial risk management (Cont'd)

	Carrying amount				Fair value			
	Loans and receivables $'000	Other financial liabilities $'000	Other financial liabilities outside the scope of FRS 39 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Company								
2017								
Assets								
Trade and receivables	42,163	–	–	42,163				
Cash and cash equivalents	182	–	–	182				
	42,345	–	–	42,345				
Liability								
Trade and other payables	–	(252)	–	(252)				
2016								
Assets								
Trade and receivables	30,064	–	–	30,064				
Cash and cash equivalents	12,636	–	–	12,636				
	42,700	–	–	42,700				
Liability								
Trade and other payables	–	(263)	–	(263)				

17 Revenue

	Group	
	2017	**2016**
	$'000	**$'000**
Offshore Rig Services and Supply Chain Management		
- Marine offshore support services income	11,846	10,774
- Chartering and towage income	4,346	7,041
- Equipment rental income	6,298	8,289
- Sale of goods	4,948	4,775
Vessel Sales and Newbuild		
- Vessels newbuild	–	485
	27,438	31,364

18 Other income

	Group	
	2017	**2016**
	$'000	**$'000**
Gain/(Loss) on disposal of property, plant and equipment	633	(114)
Interest income	80	278
Payables written off	615	–
Rental income	351	–
Exchange gain – net	–	49
Miscellaneous income	673	553
	2,352	766

19 Finance costs

	Group	
	2017	**2016**
	$'000	**$'000**
Interest expenses on:		
- Bank overdrafts and term loans	665	573
- Finance lease liabilities	213	284
	878	857

Notes to **the Financial Statements**

20 Loss before tax

The following items have been included in arriving at loss before tax:

	Group 2017 $'000	Group 2016 $'000
Operating lease expenses	1,531	2,102
Staff costs	10,157	10,802
Contributions to defined contribution plans included in staff costs	1,302	1,041
Impairment loss on trade and other receivables	1,360	884
Allowance for inventory obsolescence	–	140
Impairment loss on plant and equipment	3,601	8,258
Depreciation of property, plant and equipment	7,146	5,013
Audit fees paid/payable to auditors	300	271
Non-audit fees paid/payable to auditors	46	36
Directors' fees	208	225
Exchange loss/(gain) – net	523	(49)

21 Tax expense

	Note	Group 2017 $'000	Group 2016 $'000
Current tax expense			
Under provision in prior years		988	14
Reconciliation of effective rate			
Loss before income tax		(14,324)	(17,814)
Tax using the Singapore tax rate of 2017: 17% (2016: 17%)		(2,435)	(3,028)
Income not subject to tax		(384)	(91)
Non-deductible expenses		1,386	272
Deferred tax assets not recognised		1,374	3,051
Under provision in prior years		988	14
Others		59	(204)
		988	14

Significant judgement is involved in determining the Group's provision for income taxes. 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 recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

22 Loss per share

Basic and diluted loss per share are calculated based on the following:

	Group	
	2017	**2016**
	$'000	**$'000**
Loss for the year	(15,312)	(17,828)

Weighted average number of shares

	Group	
	2017	**2016**
	'000	**'000**
Issued ordinary shares at 1 January	710,000	710,000
Effect of own share held	(120)	–
Weighted average number of ordinary shares during the year	709,880	710,000

The calculation of the basic and diluted loss per share for each of the years ended 31 December 2017 and 2016 is based on the loss for the respective year and the weighted average number of shares of the Company of 709,880,000 (2016: 710,000,000) shares.

There were no dilutive potential ordinary shares in existence for the years ended 31 December 2017 and 2016.

23 Operating segments

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Chief Executive Officer ("CEO") (the chief operating decision maker) review internal management reports on a monthly basis to make strategic decisions. The following summary describes the operations in each of the Group's reportable segments:

(a) Offshore Rig Services and Supply Chain Management: Includes chartering, freight, servicing and repair of vessels, provision of services of marine engineers, consultants, sub-contractors, labour supply, fabrication services, trading in drill pipes and related drilling materials, provision of services and rental of marine equipment and cranes.

Notes to **the Financial Statements**

23 Operating segments (Cont'd)

(b) Vessel Sales and Newbuild: Includes trading of vessels and newbuild.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Group's CEO. Segment profit before tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

	Offshore Rig Services and Supply Chain Management $'000	Vessel Sales and Newbuild $'000	Group $'000
2017			
Total revenue from external customers	27,438	–	27,438
Inter-segment revenue	1,210	–	1,210
Total segment revenue	28,648	–	28,648
Other income	2,352	–	2,352
Finance costs	(878)	–	(878)
Segment results	(14,324)	–	(14,324)
Tax expense			(988)
Loss for the year			(15,312)
Segment assets	125,558	–	125,558
Segment liabilities	49,313	–	49,313
Capital expenditure	15,723	–	15,723
Other material non-cash items:			
- Depreciation of property, plant and equipment	7,146	–	7,146
- Gain on disposal of property, plant and equipment	(633)	–	(633)
- Impairment loss on trade and other receivables	1,360	–	1,360
- Impairment loss on plant and equipment	3,601	–	3,601
- Revaluation surplus of property, plant and equipment, net of tax	(909)	–	(909)

23 Operating segments (Cont'd)

	Offshore Rig Services and Supply Chain Management $'000	Vessel Sales and Newbuild $'000	Group $'000
2016			
Total revenue from external customers	30,879	485	31,364
Inter-segment revenue	3,275	–	3,275
Total segment revenue	34,154	485	34,639
Other income	766	–	766
Finance costs	(857)	–	(857)
Segment results	(18,166)	352	(17,814)
Tax expense			(14)
Loss for the year			(17,828)
Segment assets	136,980	–	136,980
Segment liabilities	45,634	–	45,634
Capital expenditure	12,386	–	12,386
Other material non-cash items:			
- Depreciation of property, plant and equipment	5,013	–	5,013
- Allowance for inventory obsolescence	140	–	140
- Impairment loss on trade and other receivables	884	–	884
- Impairment loss on plant and equipment	8,258	–	8,258
- Revaluation surplus of property, plant and equipment, net of tax	(21,466)	–	(21,466)

Reconciliations of reportable segment revenues

	Group 2017 $'000	Group 2016 $'000
Revenue		
Total revenue for reportable segments	28,648	34,639
Elimination of inter-segment revenue	(1,210)	(3,275)
Consolidated revenue	27,438	31,364

Geographical Information

The Group's operations are mainly in the region of Southeast Asia, Australasia (comprising mainly Australia, Marshall Islands and Papua New Guinea), Middle East, Europe and North America.

Notes to **the Financial Statements**

23 Operating segments (Cont'd)

In presenting information on geographical segments, segment revenue are based on the delivery order address of customers. Segment assets which are based on the geographical location of the assets, are all in Singapore.

	Group	
	2017	2016
	$'000	$'000
Revenue		
Australia	3,030	2,164
Indonesia	839	440
Malaysia	2,338	870
Papua New Guinea	–	1,242
Portugal	–	149
Singapore	13,762	18,143
United Arab Emirates	240	38
United States of America	3,464	5,006
Others	3,765	3,312
	27,438	31,364

24 Commitments

At reporting date, the Group have commitments for future minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2017	2016
	$'000	$'000
Within 1 year	1,606	1,614
After 1 year but within 5 years	5,277	5,157
After 5 years	16,567	17,812
	23,450	24,583

The Group leases its office premises, warehouses and shipyards under operating leases. The leases run for periods of three to twenty years, with options to renew the leases upon expiry.

The Group has commitment towards capital expenditure amounting to $670,000 (2016: $7,051,000). These commitments are expected to be incurred by 2018.

25 Contingent liabilities

There were contingent liabilities in respect of the following:

(a) Immigration bond given to Ministry of Manpower by three of the subsidiaries within the Group in respect of the employment of foreign workers amounting to $1,750,000 (2016: $1,750,000).

(b) Guarantees given to suppliers, customers, port authorities and immigration authorities by one of the entities within the Group in respect of services rendered amounted to $603,000 (2016: $878,000).

26 Related parties

Key management personnel compensation

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group. The directors are considered as key management personnel of the Group.

The key management personnel compensation comprises:

	Group	
	2017	**2016**
	$'000	**$'000**
Short term employee benefits	2,313	2,746
Contributions to defined contribution plans	83	110
	2,396	2,856

Other related party transactions

During the financial year, other than those transactions as disclosed elsewhere in the financial statements, there were no related party transactions.

27 Subsequent event

On 9 January 2018, the Group incorporated a subsidiary in Malaysia, RUHM Mazu Sdn. Bhd.. The principal activities of the subsidiary are to undertake marketing, operating, maintaining and chartering vessels.

Statistics of **Shareholdings**

As at 15 March 2018

SHARE CAPITAL

Issued and fully paid-up capital	:	S$76,133,121.00
No. of issued shares (excluding treasury shares)	:	709,000,000
No. of treasury shares	:	1,000,000
No. of subsidiary holdings	:	Nil
Class of Shares	:	Ordinary Shares
Voting Rights	:	One vote per share

DISTRIBUTION OF SHAREHOLDINGS BY SIZE OF SHAREHOLDINGS

(As recorded in the Register of Members and Depositors Register)

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 99	0	0.00	0	0.00
100 - 1,000	28	1.59	19,050	0.00
1,001 – 10,000	380	21.54	2,672,300	0.38
10,001 – 1,000,000	1,318	74.72	127,158,800	17.93
1,000,001 and Above	38	2.15	579,149,850	81.69
TOTAL	1,764	100.00	709,000,000	100.00

LIST OF 20 LARGEST REGISTERED SHAREHOLDERS

(As recorded in the Register of Members and Depositors Register)

No.	Shareholders’ Name	No. of Shares	%
1.	KH GROUP HOLDINGS PTE. LTD.	**299,200,000**	**42.20**
2.	CREDENCE CAPITAL FUND II (CAYMAN) LIMITED	**124,999,600**	**17.63**
3.	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	**24,063,850**	**3.39**
4.	MAYBANK KIM ENG SECURITIES PTE LTD	**23,996,230**	**3.38**
5.	OCBC SECURITIES PRIVATE LTD	**9,719,700**	**1.37**
6.	ONEEQUITY SG PRIVATE LIMITED	**9,000,000**	**1.27**
7.	DBS NOMINEES PTE LTD	**8,504,500**	**1.20**
8.	BNP PARIBAS NOMINEES SINGAPORE PTE LTD	**8,373,000**	**1.18**
9.	PEH KWEE CHIM	**8,199,800**	**1.16**
10.	RAFFLES NOMINEES (PTE) LTD	**7,162,600**	**1.01**
11.	CITIBANK NOMINEES SINGAPORE PTE LTD	**5,045,200**	**0.71**
12.	THOMAS TAN KENG SIONG	**3,975,000**	**0.56**
13.	PHILLIP SECURITIES PTE LTD	**3,371,800**	**0.48**
14.	LIM BONG GUAN	**3,181,000**	**0.45**
15.	YEO KHEE SENG BENNY	**3,015,900**	**0.43**
16.	NG THOR HUAT MOXHAM	**2,710,000**	**0.38**
17.	TAN CHENG HIANG ROSALIND MRS ROSALIND LIM	**2,500,000**	**0.35**
18.	TEO KOK KHENG	**2,500,000**	**0.35**
19.	KOH NUI HOON MRS LIM NUI HOON	**2,339,000**	**0.33**
20.	BONG YEW KENG (HUANG YOUQING)	**2,300,000**	**0.32**
	Total	**554,157,180**	**78.15**

Statistics of **Shareholdings**

As at 15 March 2018

SUBSTANTIAL SHAREHOLDERS

Names of Substantial Shareholders	No. of shares registered in the name of substantial shareholder or nominees	No. of shares in which substantial shareholders are deemed to be interested	Total	Percentage of issued Shares
KH Group Holdings Pte. Ltd.	299,200,000	–	299,200,000	42.20
Tan Keng Siong Thomas	3,975,000	299,200,000(1)	303,175,000	42.76
Ng Chwee Lian Natalie Amanda	–	299,200,000(1)	299,200,000	42.20
Credence Capital Fund II (Cayman) Limited	124,999,600	–	124,999,600	17.63
Tan Chow Boon	–	124,999,600(2)	124,999,600	17.63
Seow Kiat Wang	–	124,999,600(2)	124,999,600	17.63
Koh Boon Hwee	–	124,999,600(2)	124,999,600	17.63
Credence Partners Pte. Ltd.	–	124,999,600(2)	124,999,600	17.63

Notes:

(1) Mr Tan Keng Siong Thomas and Mdm Ng Chwee Lian Natalie Amanda are deemed to be interested in 299,200,000 Shares which are held by KH Group Holdings Pte. Ltd.

(2) Credence Capital Fund II (Cayman) Limited is a private equity investment fund managed by Credence Partners Pte. Ltd. on a discretionary basis in accordance with the operating and investment conditions and other terms of the management agreement under which Credence Partners Pte. Ltd. is appointed. The shareholders of Credence Partners Pte. Ltd. are Mr Tan Chow Boon, Mr Koh Boon Hwee and Mr Seow Kiat Wang who each have a shareholding of 33.33%. Mr Tan Chow Boon, Mr Koh Boon Hwee, Mr Seow Kiat Wang and Credence Partners Pte. Ltd. are deemed to be interested in all the shares held by Credence Capital Fund II (Cayman) Limited.

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Based on information available to the Company as at 15 March 2018, approximately 39.44% of the shareholdings of the Company is held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the Catalist Rules.

Notice of **Annual General Meeting**

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Kim Heng Offshore & Marine Holdings Limited (the "**Company**") will be held at The Chevrons, Sunflower Room 1 & 2, Level 1, 48 Boon Lay Way, Singapore 609961 on Monday, 23 April 2018 at 9:30 a.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2017 and the Directors' Statement and the Auditors' Report thereon. **(Resolution 1)**

2. To declare a one-tier tax exempt final dividend of 0.07 Singapore cents per ordinary share in respect of the financial year ended 31 December 2017. **(Resolution 2)**

3. To approve the payment of Directors' fees of S$208,000 for the financial year ended 31 December 2017 (2016: S$225,250) **(Resolution 3)**

4. To re-elect the following Directors retiring pursuant to Article 103 of the Company's Constitution:

   (a) Mr Tan Chow Boon *[See Explanatory Note (i) below]* **(Resolution 4)**
   (b) Mr Ho Boon Chuan Wilson *[See Explanatory Note (ii) below]* **(Resolution 5)**

5. To re-appoint Messrs KPMG LLP as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 6)**

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions, with or without modifications:

6. **AUTHORITY TO ALLOT AND ISSUE SHARES** **(Resolution 7)**

   "That pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore, and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") – Section B: Rules of Catalist ("**Catalist Rules**"), authority be and is hereby given to the Directors of the Company to:-

   (A) (i) issue and allot new shares ("**Shares**") in the capital of the Company whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares, at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may, in their absolute discretion, deem fit; and

   (B) (notwithstanding that this authority may have ceased to be in force) issue Shares in pursuance of any Instrument made or granted by the Directors while this authority was in force, PROVIDED ALWAYS that:

(1) the aggregate number of Shares to be issued pursuant to this authority (including the Shares to be issued in pursuance of Instruments, made or granted pursuant to this authority), shall not exceed 100% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), and provided further that where shareholders of the Company ("**Shareholders**") are not given the opportunity to participate in the same on a pro-rata basis ("**non pro-rata basis**"), then the Shares to be issued under such circumstances (including the Shares to be issued in pursuance of Instruments, made or granted pursuant to this authority) shall not exceed 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (1) above, the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) shall be based on the issued Shares (excluding treasury shares and subsidiary holdings, if any) at the time this authority was conferred, after adjusting for:

  (i) new Shares arising from the conversion or exercise of any convertible securities;

  (ii) new Shares arising from the exercise of share options or the vesting of share awards which are outstanding or subsisting at the time this authority was conferred; and

  (iii) any subsequent bonus issue, consolidation or sub-division of the Shares;

  and, in relation to an Instrument, the number of Shares shall be taken to be that number as would have been issued had the rights therein been fully exercised or effected on the date of the making or granting of the Instrument;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the requirements imposed by the SGX-ST from time to time and the provisions of the Catalist Rules for the time being in force (in each case, unless such compliance has been waived by the SGX-ST), all applicable legal requirements under the Companies Act and otherwise, and the Constitution of the Company for the time being; and

(4) (unless revoked or varied by the Company in a general meeting) this authority shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law and the Catalist Rules to be held, whichever is earlier."

[See Explanatory Note (iii) below]

Notice of **Annual General Meeting**

7. **AUTHORITY TO ALLOT AND ISSUE SHARES UNDER THE KIM HENG EMPLOYEE SHARE OPTION SCHEME 2013** **(Resolution 8)**

"That pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore, authority be and is hereby given to the Directors of the Company to grant options in accordance with the provisions of the Kim Heng Employee Share Option Scheme 2013 ("**Kim Heng ESOS**") and to allot and issue from time to time such number of shares in the capital of the Company ("**Shares**") as may be required to be issued pursuant to the exercise of the options granted under the Kim Heng ESOS, provided always that the aggregate number of Shares to be allotted and issued pursuant to the Kim Heng ESOS, when aggregated together with the Shares issued and/or issuable in respect of all options granted under the Kim Heng ESOS and all Shares issued and/or issuable in respect of all options or awards granted under any other share schemes or share plans adopted by the Company for the time being, shall not exceed 15% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier."

[See Explanatory Note (iv) below]

8. **AUTHORITY TO ALLOT AND ISSUE SHARES UNDER THE KIM HENG PERFORMANCE SHARE PLAN 2013** **(Resolution 9)**

"That pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore, authority be and is hereby given to the Directors of the Company to grant awards in accordance with the provisions of the Kim Heng Performance Share Plan 2013 ("**Kim Heng PSP**") and to allot and issue from time to time such number of Shares in the capital of the Company as may be required to be issued pursuant to the vesting of awards granted under the Kim Heng PSP, provided always that the aggregate number of Shares to be allotted and issued pursuant to the Kim Heng PSP, when aggregated together with the Shares issued and/or issuable in respect of all awards granted under the Kim Heng PSP and all Shares issued and/or issuable in respect of all options or awards granted under any other share schemes or share plans adopted by the Company for the time being, shall not exceed 15% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier."

[See Explanatory Note (v) below]

9. **Proposed Renewal of the Share Buyback Mandate** **(Resolution 10)**

That:

(a) for the purposes of sections 76C and 76E of the Companies Act, Chapter 50 of Singapore (the "**Companies Act**"), the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire issued ordinary shares in the capital of the Company not exceeding in aggregate the Prescribed Limit (as hereinafter defined), at such price(s) as may be determined by the Directors of the Company from time to time up to the Maximum Price (as hereinafter defined), whether by way of:

(i) market purchases (each an "**Market Purchase**") on the SGX-ST; and/or

Notice of **Annual General Meeting**

(ii) off-market purchases (each an "**Off-Market Purchase**") effected otherwise than on the SGX-ST in accordance with any equal access schemes as may be determined or formulated by the Directors of the Company as they may, in their absolute discretion, deem fit, which schemes shall satisfy all the conditions prescribed by the Companies Act,

and otherwise in accordance with all other laws, regulations and rules of the SGX-ST as may for the time being be applicable (the "**Share Buyback Mandate**");

(b) the Directors of the Company may impose such terms and conditions which are not inconsistent with the Share Buyback Mandate, the listing rules of the SGX-ST and the Companies Act, as they consider fit and in the interests of the Company in connection with or in relation to any equal access scheme(s);

(c) any Share that is purchased or otherwise acquired by the Company pursuant to the Share Buyback Mandate shall, at the absolute discretion of the Directors of the Company, either be cancelled or held in treasury and dealt with in accordance with the Companies Act;

(d) unless varied or revoked by the Company in general meeting, the authority conferred on the Directors of the Company pursuant to the Share Buyback Mandate may be exercised by the Directors of the Company at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earlier of:

(i) the date on which the next annual general meeting of the Company is held or is required by law to be held;

(ii) the date on which the share buybacks are carried out to the full extent mandated; or

(iii) the date on which the authority contained in the Share Buyback Mandate is varied or revoked by the Company in general meeting; and

(e) in this Resolution:

"**Prescribed Limit**" means the number of issued Shares representing not more than 10% of the total number of issued Shares (ascertained as at the date of the last annual general meeting held before the passing of this Resolution or as at the date of passing of this Resolution, whichever is higher, unless the Company has effected a reduction of the share capital of the Company in accordance with the applicable provisions of the Companies Act, at any time during the Relevant Period, in which event the total number of Shares shall be taken to be the total number of Shares as altered (excluding any treasury shares and subsidiary holdings, if any) that may be held by the Company from time to time));

"**Relevant Period**" means the period commencing from the date on which the last annual general meeting was held and expiring on the conclusion of the next annual general meeting or on the date by which the next annual general meeting is required by law to be held, whichever is the earlier, after the date of passing of this Resolution; and

Notice of **Annual General Meeting**

"**Maximum Price**" in relation to a Share to be purchased, means an amount (excluding brokerage, commission, stamp duties, applicable goods and services tax, clearance fees and other related expenses) not exceeding:

(i) in the case of a Market Purchase, 105% of the Average Closing Price; and

(ii) in the case of an Off-Market Purchase, 120% of the Average Closing Price,

where:

"**Average Closing Price**" means the average of the closing market prices of a Share over the last five market days on which transactions in the Shares were recorded on the SGX-ST immediately preceding the date of the Market Purchase by the Company or, as the case may be, the date of the making of the offer (as defined hereinafter) pursuant to the Off-Market Purchase, and deemed to be adjusted for any corporate action that occurs after the relevant five day period;

"**date of the making of the offer**" means the date on which the Company announces its intention to make an offer for an Off-Market Purchase, stating the purchase price (which shall not be more than the Maximum Price for an Off-Market Purchase calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase; and

"**market day**" means a day on which the SGX-ST is open for trading in securities; and

(f) the Directors of the Company and each of them be and are hereby authorised and empowered to complete and do all such acts and things (including without limitation, to execute all such documents as may be required and to approve any amendments, alterations or modifications to any documents), as they/he/she may consider necessary, desirable or expedient to give effect to the transactions contemplated by this Resolution.

[See Explanatory Note (vi)]

10. To transact any other business that may be properly transacted at an annual general meeting.

By Order of the Board

Tan Wee Sin
Company Secretary
6 April 2018
Singapore

Explanatory Notes:

(i) Mr Tan Chow Boon will, upon re-election as Director of the Company, remain as a Member of the Audit & Risk Committee, Nominating and the Remuneration Committees.

(ii) Mr Ho Boon Chuan Wilson will, upon re-election as Director of the Company, remain as Chairman of the Audit & Risk Committee as well as a Member of the Nominating and the Remuneration Committees. The Board considers Mr Ho Boon Chuan Wilson to be independent for the purpose of Rule 704(7) of the Catalist Rules. Key information of Mr Ho Boon Chuan Wilson can be found on page 11 of the Annual Report 2017. There are no relationships (including family relationship) between Mr Ho Boon Chuan Wilson and the other Directors or the Company or its 10% shareholders.

(iii) Ordinary Resolution 7, if passed, will empower the Directors of the Company from the date of this Meeting until the date of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by law to be held or such authority is carried or revoked by the Company in a general meeting, whichever is the earlier, to allot and issue Shares in the Company and/or the Instruments (as defined above). The aggregate number of Shares (including Shares to be made in pursuance of Instruments, made or granted pursuant to this Resolution) which the Directors may allot and issue, shall not exceed 100% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company, of which the total number of Shares and convertible securities other than on a pro-rata basis to existing Shareholders, shall not exceed 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company.

(iv) Ordinary Resolution 8, if passed, will empower the Directors of the Company to grant options under the Kim Heng ESOS and to allot and issue Shares pursuant to the exercise of such options in accordance with the Kim Heng ESOS.

(v) Ordinary Resolution 9, if passed, will empower the Directors of the Company to grant awards under the Kim Heng PSP and to allot and issue Shares pursuant to the vesting of such awards in accordance with the Kim Heng PSP.

(vi) Ordinary Resolutions 10, if passed, will empower the Directors of the Company, effective until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is the earlier, to repurchase ordinary shares of the Company by way of on-market purchases or off-market purchases of up to ten per cent (10%) of the total number of issued shares in the capital of the Company at the Maximum Price as defined in the Appendix accompanying this Notice dated 6 April 2018.

Notes:

(a) A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies, to attend and vote on his / her behalf, save that no such limit shall be imposed on the number of proxies appointed by members which are nominee companies. A proxy need not be a member of the Company.

(b) Where a member appoints two proxies, he shall specify the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy. If no such proportion or number is specified, the first named proxy may be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named.

(c) A member (who is a **Relevant Intermediary***) is entitled to appoint more than two proxies to attend and vote at the meeting. He shall specify the proportion of his shares (expressed as a percentage of the whole) to be represented by each proxy.

*__Relevant Intermediary__ is:

(i) a banking corporation licensed under the Banking Act Chapter 19 of Singapore or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who hold shares in that capacity; or

(ii) a person holding a capital markets services license to provide a custodial services for securities under the Securities and Futures Act Chapter 289 of Singapore and who holds shares in that capacity; or

(iii) the Central Provident Fund Board established by the Central Provident Fund Act Chapter 36 of Singapore, in respect of shares purchased on behalf of CPF investors.

(d) 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 Annual General Meeting in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

(e) The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or signed on its behalf by an officer or attorney duly authorised in writing.

(f) Where an instrument appointing a proxy is signed on behalf of the appointor by the attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

(g) The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 9 Pandan Crescent, Singapore 128465, not less than forty-eight (48) hours before the time appointed for holding the Annual General Meeting.

(h) In the case of joint shareholders, all shareholders must sign the instrument appointing a proxy or proxies.

Notice of **Annual General Meeting**

(i) Completion and return of this instrument appointing a proxy or proxies shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the Annual General Meeting in person, and in such event, the Company reserves the right to refuse the admission of any person or persons appointed under the instrument of proxy, to the Annual General Meeting.

(j) The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions 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 such member(s) are not shown to have shares entered against his/her/their name(s) in the Depository Register as at seventy-two (72) hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.

(k) A Depositor shall not be regarded as a member of the Company entitled to attend the Annual General Meeting and to speak and vote thereat unless his/her name appears on the Depository Register 72 hours before the time appointed for the Annual General Meeting.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis of the Company (or its agents or service providers) of proxies and/or representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

This notice has been prepared by the Company and its contents have been reviewed by the Company's sponsor SAC Capital Private Limited, ("Sponsor") for compliance with the relevant rules of the SGX-ST. The Sponsor has not independently verified the contents of this notice.

This notice has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this notice, including the correctness of any of the statements or opinions made, or reports contained in this notice.

The contact person for the Sponsor is Ms Tay Sim Yee (Tel: (65) 6532 3829) at 1 Robinson Road, #21-02 AIA Tower, Singapore 048542.

KIM HENG OFFSHORE & MARINE HOLDINGS LIMITED
Registration Number: 201311482K
(Incorporated in the Republic of Singapore)

PROXY FORM
ANNUAL GENERAL MEETING

*I / We, ______________________________ (Name) ______________________________ (NRIC/Passport no.)

of ____ (Address)

being *a member/members of Kim Heng Offshore & Marine Holdings Limited (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholding(s) to be presented by Proxy	
		No. of Shares	%
Address			

*and/or

Name	NRIC/Passport No.	Proportion of Shareholding(s) to be presented by Proxy	
		No. of Shares	%
Address			

or failing him/her, the Chairman of the Meeting as *my/our *proxy/proxies to vote for *me/us on *my/our behalf at the Annual General Meeting ("AGM") of the Company to be held at The Chevrons, Sunflower Room 1 & 2, Level 1, 48 Boon Lay Way, Singapore 609961 on Monday, 23 April 2018 at 9:30 a.m., and at any adjournment thereof.

*I/We direct *my/our *proxy/proxies to vote for or against the Ordinary Resolutions to be proposed at the AGM as indicated hereunder. If no specific directions as to voting are given, the *proxy/proxies will vote or abstain from voting at *his/her/their discretion.

Resolution No.	Ordinary Resolutions	For#	Against#
1.	To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2017 and the Directors' Statement and the Auditors' Report thereon.		
2.	To declare a one-tier tax exempt final dividend of 0.07 Singapore cents per ordinary share in respect of the financial year ended 31 December 2017.		
3.	To approve the payment of Directors' fees of S$208,000 for the financial year ended 31 December 2017.		
4.	Re-election of Mr Tan Chow Boon as a Director of the Company.		
5.	Re-election of Mr Ho Boon Chuan Wilson as a Director of the Company.		
6.	Re-appointment of Messrs KPMG LLP as Auditors of the Company and authority for Directors to fix their remuneration.		
7.	Authority to allot and issue shares.		
8.	Authority to allot and issue shares under the Kim Heng Employee Share Option Scheme 2013.		
9.	Authority to allot and issue shares under the Kim Heng Performance Share Plan 2013.		
10.	Renewal of Share Buyback Mandate.		

Dated this ________ day of ____________________ , 2018

Total number of Shares in :	No. of Shares held
(a) CDP Register	
(b) Register of Members	

____
Signature(s) of Member(s)/ Common Seal

* *Delete accordingly.*
\# *If you wish to use all your votes "For" or "Against", please indicate with an "X" within the box provided. Otherwise, please indicate number of votes "For" or "Against" for each resolution within the box provided.*

IMPORTANT: Please read notes overleaf

Notes:-

1. A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his / her behalf, save that no such limit shall be imposed on the number of proxies appointed by members which are nominee companies. A proxy need not be a member of the Company.
2. Where a member appoints two proxies, he/she shall specify the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy. If no such proportion or number is specified, the first named proxy may be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named or at the Company's option to treat this proxy form as invalid.
3. A member who is a **Relevant Intermediary*** is entitled to appoint more than two proxies to attend and vote at the meeting.\He shall specify the proportion of his shares (expressed as a percentage of the whole) to be represented by each proxy.

   ***Relevant Intermediary** is:

   (a) a banking corporation licensed under the Banking Act Chapter 19 of Singapore or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who hold shares in that capacity; or

   (b) a person holding a capital markets services license to provide custodial services for securities under the Securities and Futures Act Chapter 289 of Singapore and who holds shares in that capacity; or

   (c) the Central Provident Fund Board established by the Central Provident Fund Act Chapter 36 of Singapore, in respect of shares purchased on behalf of CPF investors.
4. The instrument appointing a proxy or proxies must be under the hand of the appointor or his/her attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of an officer or attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the power of attorney or a duly certified copy thereof must be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
5. 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 Annual General Meeting in accordance with Section 179 of the Companies Act, Chapter 50.
6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 9 Pandan Crescent, Singapore 128465 not less than 48 hours before the time appointed for the Annual General Meeting.
7. In the case of joint shareholders, all shareholders must sign the instrument appointing a proxy or proxies.
8. Completion and return of this instrument appointing a proxy or proxies shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the Annual General Meeting in person, and in such event, the Company reserves the right to refuse the admission of any person or persons appointed under the instrument of proxy, to the Annual General Meeting.
9. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions 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 such member(s) are not shown to have shares entered against his/her/their name(s) in the Depository Register as at 72 hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.
10. A Depositor shall not be regarded as a member of the Company entitled to attend the Annual General Meeting and to speak and vote thereat unless his/her name appears on the Depository Register 72 hours before the time appointed for the Annual General Meeting.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the members accept and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 6 April 2018.

Fold along this line

Affix postage stamp here

The Company Secretary
KIM HENG OFFSHORE & MARINE HOLDINGS LIMITED
9 Pandan Crescent
Singapore 128465

Fold along this line

KIM HENG
OFFSHORE & MARINE HOLDINGS LIMITED

Incorporated in the Republic of Singapore on 29 April 2013
Company Registration Number: 201311482K

9 Pandan Crescent, Singapore 128465
Tel : (65) 6777 9990
Fax : (65) 6778 9990
Website: www.kimheng.com.sg