KIM HENG
OFFSHORE & MARINE HOLDINGS LIMITED
ANNUAL REPORT 2014

RESILIENT TO CHALLENGES AHEAD





An Established Integrated Offshore & Marine Value Chain Services Provider

We, Think Better, Do Better, Be Better.

Contents

COMPANY OVERVIEW

With over 40 years of experience, Kim Heng Offshore & Marine Holdings Limited and its subsidiaries ("Kim Heng" or the "Group") is an established integrated offshore and marine value chain services provider. Strategically located 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.

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.

OUR BUSINESS

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

SUPPLY CHAIN MANAGEMENT

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

VESSEL SALES & NEWBUILD

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

KIM HENG PROJECTS

JACK UP RIG

Rig refurbishment services, modular fabrication and installation of various drilling equipment such as a chain hoist, rig floor tuggers, and a casing stabbing board

SEMI-SUBMERSIBLE RIG

Fabrication works, removal and installation of thrusters. Provision of crew management, cargo clearance, loading services, and procurement of equipment and consumables for the rig

TENDER RIG

Afloat repairs, tank cleaning, heavy lifting of drilling equipment and storage and removal and transportation of cementing equipment

DRILLSHIP

Maintenance, inspection of risers and auxiliary lines, removal, refurbishment and installation of six azimuth thrusters at anchorage, and heavy lifting of lower marine riser package and blowout preventer stack assembly

PIPELAY BARGE MCDERMOTT LB32

Construction of a 111 metre pipe laying and accommodation barge, which has the capacity to accommodate 292 men

COMPANY MILESTONES

2014

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

2013

- Completed first re-activation and refurbishment of a jack-up rig, Randolph 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 pipelaying 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

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 oil and gas 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 oil and gas 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

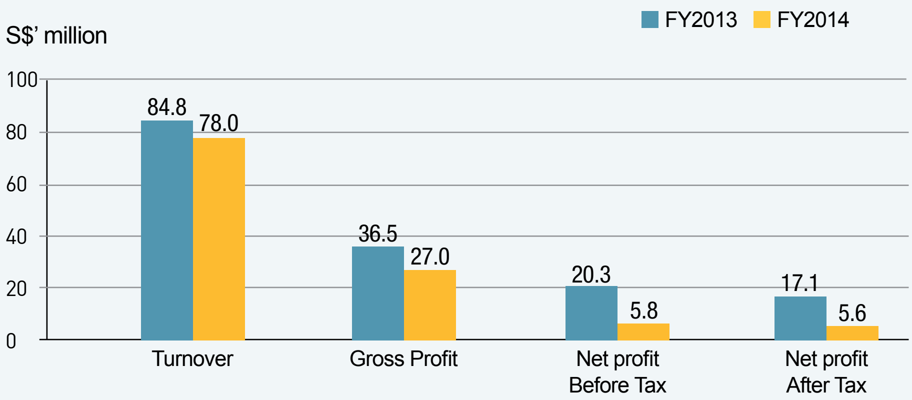
- Our Group corporatised itself through the incorporation of Kim Heng Marine Pte Ltd

1968

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

FINANCIAL HIGHLIGHTS

Kim Heng remained resilient despite a competitive and softening offshore and marine sector.



OPERATING RESULTS

(S$'000)	FY2013	FY2014
Revenue	84,813	77,978
Gross Profit	36,454	26,964
Profit Before Tax	20,346	5,814
Net Profit	17,093	5,617

FINANCIAL POSITION

(S$'000)	FY2013	FY2014
Total Assets	91,997	130,046
Current Assets	34,174	66,751
Total Liabilities	34,497	31,994
Current Liabilities	24,634	21,421
Total Equity	57,500	98,052
Cash & Cash Equivalents	3,504	49,894
Debt to Equity Ratio*	0.14	0.08

PERFORMANCE INDICATORS

	FY2013	FY2014
Net Asset Value per Share (in cents)	10.5***	13.8**
Earnings per Share (in cents)	3.1***	0.8**
Return on Equity	30%	6%
Return on Total Assets	19%	4%
Return on Capital Employed	25%	5%

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

** *Based on the post-IPO share capital of 710,000,000 ordinary shares as at 31 December 2014*

*** *Based on 550,000,000 shares in issue as at 31 December 2013*

CHAIRMAN'S MESSAGE

DEAR SHAREHOLDERS,

On behalf of the Board of Directors ("Board") of Kim Heng Offshore & Marine Holdings Limited and its subsidiaries ("Kim Heng" or the "Group"), I have the great pleasure of presenting to you our annual report for the financial year ended 31 December 2014 ("FY2014").

Kim Heng successfully listed on the Catalist Board of the Singapore Exchange Securities Trading Limited ("SGX") in January 2014 and our initial public offering was well received by the investment community in Singapore. It was a significant milestone in the development of our Group and has empowered us with the capability to seize potential business opportunities to expand our horizons.

Established in 1968, Kim Heng has remained at the forefront of providing comprehensive services to offshore oil drilling and dredging companies. Today, we are an established public listed integrated offshore and marine value chain services provider.

FY2014 marked Kim Heng's first year of successful listing on the Catalist Board of the SGX. In spite of the challenges faced in the second half of the year, prudent business management has allowed us to remain profitable. Overall business climate is expected to be challenging in 2015 but we progress into the year with confidence in our ability to overcome the challenges and emerge as an even stronger player in the industry.

THOMAS TAN KENG SIONG
Executive Chairman
& Chief Executive Officer

FY2014 PERFORMANCE

The second half of 2014 saw macro-economic and geopolitical conditions deteriorate. Key macro indicators showed Japan and a significant portion of Europe enter their recessionary phase whilst China's economic growth slowed to its weakest in 24 years. On the geopolitical front, disparity in the approach to oil supply between Organization of the Petroleum Exporting Countries ("OPEC") and non-OPEC nations is a key reason which has resulted in oil prices falling almost 50 percent from July 2014 to December 2014, adversely affecting businesses across the broad oil and gas industry. Additionally, the weakened economies and slowdown in growth further diminished the demand for oil and gas related services. In spite of this, the Group has withstood the difficult operating conditions to deliver a profitable performance for 2014.

The falling oil prices resulted in lower demand for oil and gas related services as companies cut their exploration and production spending in view of the market conditions. This put a downward pressure on prices for the maintenance of rigs, the provision of goods and services, and caused an upward trend of delays in the arrival of drilling rigs and offshore support vessels from our customers. As such, revenue performance by our core Offshore Rig Services and Supply Chain Management ("ORS-SCM") segment recorded a 17.3% dip in revenue to S$69.3 million.

However, the drop in revenue in our ORS-SCM segment was partially offset by the increase in our revenue stream from our Vessel Sales & Newbuild ("VS-NB") segment. As a result of the sale of three barges in FY2014, the VS-NB segment saw a jump in revenue contribution to S$8.6 million in FY2014 from S$1.0 million in the financial year ended 2013 ("FY2013"). Overall, despite stiff competition and downtrends in the industry, we managed to achieve revenue of S$78.0 million in FY2014, a slight decrease of 8.1%.

The fall in prices in oil and gas related services translated into lower margins. Overall, the gross profit margin declined from

CHAIRMAN'S MESSAGE

43.0% in FY2013 to 34.6% in FY2014, where gross profit for FY2014 was S$27.0 million.

The Group achieved net profit after tax of S$5.6 million for FY2014, compared to S$17.1 million in FY2013.

With over 40 years of experience in integrated offshore and marine value chain services, the Group has been well acquainted with the upswings and downtrends of the global economic cycle and its impact on the offshore and marine industry. As we step into 2015, we will continue our strategy of diversification and explore feasible business opportunities.

INDUSTRY OUTLOOK & PROSPECTS

As a result of the uncertainty of oil prices, the general offshore and marine industry has cut their capital expenditure and thus affected profit growth for the offshore subsea services sector. The demand in the offshore and marine industry remains soft in general as companies switch to a cost cutting mode. Such effects could last for a prolonged period, causing growth in the offshore subsea services sector to remain subdued.

Given the recent developments in our operating environment, we expect our business to remain volatile and challenging through 2015.

Notably, various industry reports and news coverage have shown announcements of receding capital expenditures in multiple companies, and reductions in their rig count. While this is certainly not the most optimistic information, we feel that there will still be opportunities presented to us in the midst of the industry slowdown.

The Group believes that more rigs from around the region may be moved to Singapore, or nearby, to be warm or cold stacked. This presents a new avenue of increased servicing revenue for the Group, which has a decent estimated gross margin of between 30-35%.

In addition to this, whether the rigs are stagnant or active, they still require our services and support. This, coupled with more stringent global safety regulations and compliance standards associated with offshore operations, is expected to provide a level of demand for our services.

Despite current industry conditions and a challenging forward operating environment, the Group remains cautiously positive on its business outlook for the next 12 months. We will continue to capitalise on our experience to deliver timely and quality services.

FUTURE PLANS & GROWTH STRATEGY

In view of the challenging industry outlook, we plan to remain prudent and to manage our resources optimally. We also plan to expand and diversify our business and service offerings through acquisitions as well as strategic alliances. This is especially timely given that there will be businesses and companies with attractive valuations in the current climate. We are equipped with a strong balance sheet and we will be able to pick the best investment opportunities when such opportunities arise.

The Group has expanded its fleet in 2014, adding a total of three tugs, four barges and three offshore support vessels. Although we do not foresee an immediate recovery in 2015, we aim to continue the expansion of our subsea equipment and maintenance services whilst staying vigilant to the market forces in play.

In addition to this, the Group will invest and develop our waterfront yard and facilities at 48 Penjuru Road. This enhancement of the yard ensures that we have sufficient workspace with the necessary infrastructure to provide the top-of-the-line quality services to meet the anticipated rise in operational demand for rig services.

It will involve the setting up of a new fabrication and engineering workshop, the construction of a quayside jetty and wharf improvements. These upgrades will help the Group to move up the value chain, allowing us to secure higher-value jobs.

WORDS OF APPRECIATION & PROPOSED DIVIDENDS

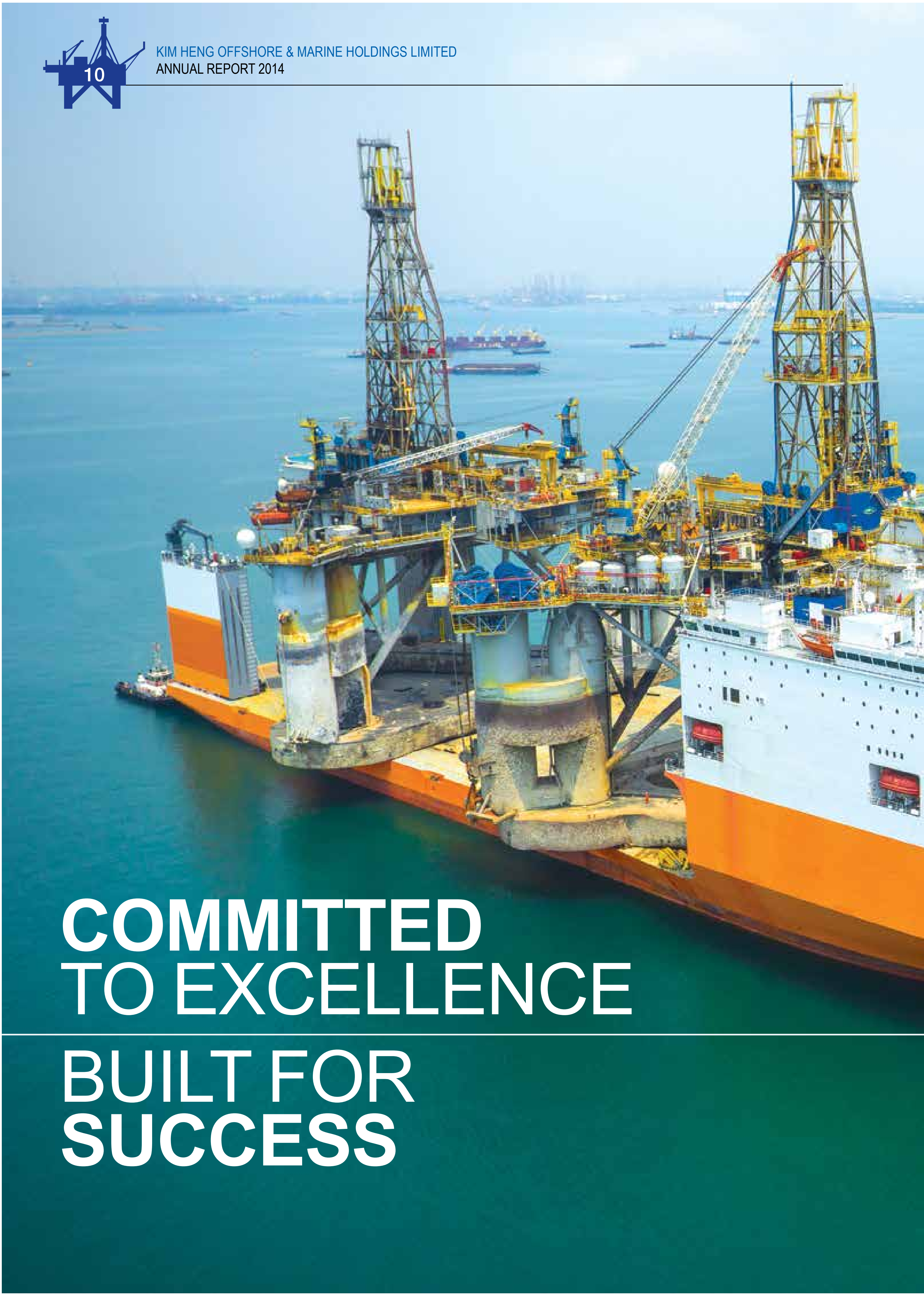
On behalf of the Board, I would like to take this opportunity to express my sincere appreciation to our dedicated team of management staff and employees for their commitment, diligence and zeal, which has contributed to the continued success of the Group. I would also like to thank our partners, suppliers, customers and business associates for their trust in us and support through the years. I look forward to many more years of strong partnership.

Also, I wish to thank our key institutional investors, Credence Partners and Zana Capital, who have given us their vote of confidence, during and after our initial public offering ("IPO"), for their support in aiding us to achieve this major milestone.

In order to reward our loyal shareholders for their enduring support, the Board has recommended a final dividend of 0.5 Singapore cents per share, subject to shareholders' approval at the forthcoming annual general meeting.

As the Group commences the next phase of our growth, we aim to scale greater heights and achieve greater value for all our shareholders in 2015 and beyond!
Yours Sincerely,

Thomas Tan Keng Siong
Executive Chairman and Chief Executive Officer



COMMITTED TO EXCELLENCE

BUILT FOR SUCCESS

Overall business climate is expected to be challenging in 2015 but we progress into the year with confidence in our ability to overcome the challenges and emerge as an even stronger player in the industry.

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 of all the companies within the Group except Kim Heng Heavy Equipment Pte Ltd. 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 chandling business. Thomas Tan rose through the ranks over the years to head the marketing and operations department. In 1998, Thomas Tan and SK Tan acquired the shareholdings of their father and founder of the Kim Heng business, Tan Eng Hai, as well as the shareholdings of their other siblings who were also involved in the family business. 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.

Thomas Tan completed his formal education at St. Joseph's Institution in 1974.

2. YEO SEH HONG
Executive Director & COO

Yeo Seh Hong is the Executive Director and COO of the Group. She was appointed to the Board on 26 December 2013. She also serves as a director of Kim Heng Marine & Oilfield Pte Ltd, Kim Heng Shipbuilding & Engineering Pte Ltd and Kim Heng Tubulars Pte Ltd. 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. She was then an operations co-ordinator/foreman with T.D. Inspection Pte Ltd (formerly known as AMF Tuboscope Inc.) from 1985 to 1988 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 such 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.

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.

3. TAN CHOW BOON
Non-Executive Director

Tan Chow Boon is a Non-Executive Director of our Company and was appointed to the Board on 26 December 2013. He began his career in Hewlett-Packard as an engineer and over seven years, held key operational and managerial positions in engineering, production, procurement and materials management. In 1991, he left Hewlett-Packard and together with a partner, founded Omni Electronics, a Singapore electronic manufacturing services company. In 1995, he founded Eteq Components, a Singapore electronics components distribution company to enhance the electronic manufacturing services offerings. Between 1991 and 2004, he held various executive positions, including that of Managing Director of Omni Electronics and Eteq Components, Executive Director of Omni Industries and Senior Vice President of Celestica Asia. He is currently a Director of Credence Capital Fund II (Cayman) Limited ("Credence"), a South East Asia private equity fund, providing growth stage capital and expertise to SMEs within the Manufacturing, Information Communication Technology, Services, Logistics and Consumer sectors. Credence is managed by Credence Partners Pte Ltd, a Singapore-based private equity firm led by Koh Boon Hwee, Tan Chow Boon and Seow Kiat Wang.

Tan Chow Boon obtained his Bachelor's Degree in Mechanical Engineering from the National University of Singapore in 1984 and his Executive MBA from the Golden Gate University, California in 1992.

4. DOUGLAS OWEN CHESTER
Lead Independent Director

Douglas Owen Chester is the Lead Independent Director of our Company and was appointed to the Board on 26 December 2013. He is also an independent director of Civmec Limited and Stamford Land Corporation Limited. He has had an illustrious career with the Australian Public Service for over 33 years until his retirement in 2012. His key appointments with the Australian Public Service include Deputy Secretary of the Australian Department of Foreign Affairs and Trade ("DFAT") (2003-2008), Australia's Ambassador to Asia-Pacific Economic Cooperation (2005), Australia's High Commissioner to Brunei (2000) and most recently, Australia's High Commissioner to Singapore (2008-2012). Prior to joining DFAT in 1990, he had an 11-year career with the then Australian Patent, Trade Marks and Design Office as a patent examiner. Before that he worked at the Australian National University as a research scientist.

Douglas Owen Chester graduated from the Australian National University in 1976 with a Bachelor of Science (Hons) degree.

BOARD OF DIRECTORS

5. HO BOON CHUAN WILSON
Independent Director

Ho Boon Chuan Wilson is an Independent Director of our Company and was appointed to the Board on 26 December 2013. He is the Managing Director of the Westcon Solutions Group of companies, an IT security focused, value added distribution business arm of Westcon Group Inc. across Asia. He is also an independent director of Sysma Holdings Limited. His experiences over the past 20 years include working in the capital markets group of DBS Bank, holding the post of CFO 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.

6. 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

TAN KAH SENG
Chief Financial Officer

Mr Tan Kah Seng 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 2008 as Group Accountant before being promoted to Chief Financial Officer. Mr Tan Kah Seng has more than 15 years of experience in the accounting field and he is a member of the Chartered Certified Accountants (ACCA, UK), CA (Chartered Accountant, Malaysia) and a Chartered Accountant, Singapore.

TAN KENG HOE MELVIN
General Manager for Supply Chain Management

Mr Tan Keng Hoe Melvin serves as the General Manager for Supply Chain Management of the Group and is responsible for supervising and managing of materials and logistics of the Group. His first period 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

CAPTAIN SANKET ASOK SHUKLA
General Manager for Offshore & Marine Services

Captain Sanket Asok Shukla serves as the General Manager for Offshore & Marine Services, and oversees the Group's offshore and marine operations. He joined the Group in October 2012 and is a Master Mariner (F.G.) with more than 16 years of marine industry experience working with leading MNCs in the marine industry. Captain Sanket also has 11 years of sea going exposure on diverse range of vessels, which includes commanding a chemical tanker in 2007. He holds a Masters of Business Administration from Brussels and was previously a OCIMF OVID accredited Inspector and member of International Chamber of Shipbrokers and Nautical Institute.

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 up the ranks to 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 Diploma in Marine Engineering from Singapore Polytechnic.

We have a steady operating cash flow and a strong cash position which will enable us to provide synergistic value to our existing businesses through acquisitions as well as strategic alliances.

DECISIVELY **PRUDENT**

RESILIENT TO **ADVERSITY**

OPERATIONS AND FINANCIAL REVIEW

The Group's financial performance in FY2014 was resilient against a competitive and softening offshore and marine sector. Our Offshore Rig Services and Supply Chain Management ("ORS-SCM") segment accounted for 88.9% of the Group's revenue for the financial year ended 31 December 2014 ("FY2014"). Singapore remained the largest market for the Group, contributing S$45.6 million or 58.5% to the Group's revenue.

OPERATIONS REVIEW & OUTLOOK

OFFSHORE RIG SERVICES & SUPPLY CHAIN MANAGEMENT

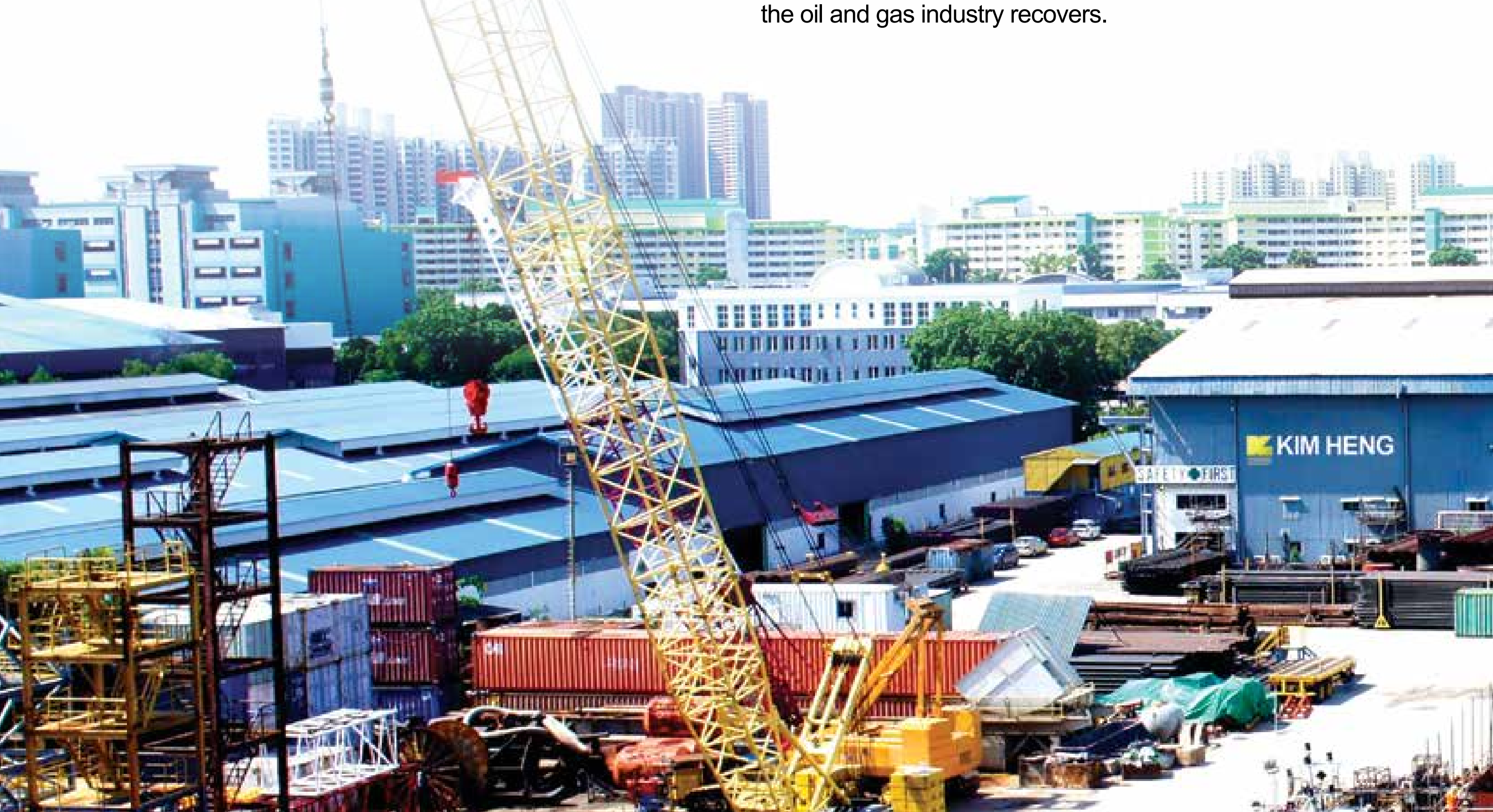
The ORS-SCM segment accounted for 88.9% of the Group's revenue for FY2014. Revenue was down by 17.3% year-on-year ("y-o-y") to S$69.3 million for ORS-SCM. The softening oil and gas market resulted in weaker demand for rig maintenance and its related services. This resulted in downward pressure on rates for maintenance of rigs and the provision of goods and services to customers.

The weak oil & gas outlook was accompanied by the increasing trend of delays in the arrival of drilling rigs and offshore support vessels from our customers. Consequently, this caused decreases in our marine offshore support services income of S$3.8 million and in equipment rental income of S$2.8 million.

In addition to this, sale of materials decreased by S$12.9 million although S$4.0 million in the previous year can be attributed to a one-off supply of bunker oil to a customer in 1Q2013. The declines were partially offset by an increase in chartering and towage income of S$5.0 million to S$22.3 million, mainly from an increase in demand from one of our major customers.

Going forward, the Group expects industry conditions to remain challenging in 2015. Along with reducing day rates, the charges for maintenance of rigs and prices for the provision of goods and services may remain soft as well.

To set us up for the future, improvements are underway to ensure we have the relevant infrastructure and support to provide the high standards our clients are accustomed to. These include new investments into our yard and surrounding structures, such as a new multi level workshop and warehouse. Currently, with our yard at 100 percent utilization, these investments will increase our yard's water depth and remove our space constraints, thus giving us a more substantial operational capacity and the ability to take on larger vessels. In addition, we will be able to undertake the upslip of vessels in our yards, giving us the ability to do our own maintenance, instead of outsourcing, thereby reducing our costs. Moreover, moving ahead with our expansion plans allows us to be in good stead when the oil and gas industry recovers.



We have already begun preparations to enhance our infrastructure during FY2014 through the expansion of our fleet by a total of three tugs, four barges and three offshore support vessels. This is to accommodate larger higher value projects and the increased volume of projects once the oil and gas services sector recovers.

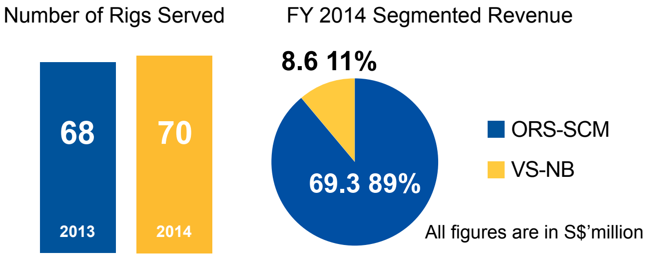
VESSEL SALES & NEWBUILD

The Vessel Sales and Newbuild ("VS-NB") segment contributed the remaining 11.1% of the Group's revenue for FY2014. Revenue jumped more than seven-fold y-o-y to S$8.6 million, from S$1.0 million previously, as a result of the sale of two barges in 2Q2014 and one barge in 4Q2014. Recently, we have secured orders to build two aluminium boats, which to us indicate the trust and confidence that our customers have in us despite the slowdown in the industry.

This segment remains a strategic part of the Group's business and we will continue to embark on profitable opportunities based on ad-hoc enquiries from potential buyers.

OPERATIONS AND FINANCIAL REVIEW

FINANCIAL PERFORMANCE REVIEW



The Group's financial performance in FY2014 was resilient against a competitive and softening offshore and marine sector. Revenue dipped by 8.1% y-o-y to S$78.0 million in FY2014, from S$84.8 million in FY2013. This was a result of lower revenue contribution from the ORS-SCM segment, offset partially by higher revenue for the VS-NB segment.

Singapore remained the largest market for the Group, contributing S$45.6 million or 58.5% to the Group's revenue.

The Group's total assets were S$130.0 million as at 31 December 2014, an increase of 41.4% y-o-y from the previous year. Current assets were valued at S$66.8 million, an increase of S$32.6 million from 31 December 2013. This was primarily due to the increase in cash and cash equivalents of S$46.4 million from the Group's IPO on the Catalist board in January 2014 and collections from customers during FY2014. Additionally, it was supplemented by the increase in inventories of S$1.5 million.

As at 31 December 2014, the Group's total liabilities decreased by 7.3% y-o-y to S$32.0 million. This was due to a reversal of overprovision of tax in the previous year which amounted to S$0.7 million, paired with a decrease in current tax payable of S$2.4 million, as a result of lower profits for the financial year.

In FY2014, cost of sales increased by S$2.7 million, primarily due to the higher cost incurred on vessel sales and related cost. As a result, the Group's gross profit decreased by 26.0% y-o-y to S$27.0 million, from S$36.5 million, in line with a decline in gross profit margin to 34.6% from 43.0%. The lower gross profit margin was due to a shift in revenue mix, with a drop in contribution from the higher-margin ORS-SCM segment and an increase in contribution from the lower-margin VS-NB segment.

The net profit for FY2014 was S$5.6 million, compared to a net profit of S$17.1 million in FY2013.

STEADY OPERATING CASHFLOW, STRONG CASH POSITION AND SECURE OUTLOOK

Overall, net cash generated from operating activities amounted to S$20.7 million, against S$20.2 million in FY2013. Through prudent cash management and proceeds from the IPO, the Group ended FY2014 with cash and cash equivalents at S$49.9 million. Moreover, with a business direction in place, this strong cash position allows us the flexibility to capitalize on favourable acquisition and business expansion opportunities.

Going forward, the Group will be committed to its aforementioned pre-emptive measures and growing its ability to service larger and more complex vessels. Kim Heng remains confident that it has sufficient expertise, a wealth of knowledge and a strong management team that will lead the Group to emerge stronger in FY2015.

CORPORATE SOCIAL RESPONSIBILITY

Aim to Achieve Zero Accident Environment

Quality Assurance

Client Satisfaction

The Group places great emphasis on Corporate Social Responsibility ("CSR") and incorporates this into its everyday operations. From humble beginnings to a listed company today, the Group believes that cultivating a socially responsible culture in the Group plays an integral role in the Group's success. Hence, Kim Heng always factors in social and environmental considerations whenever it reviews a business opportunity or venture. Overall, the Group believes that the knowledge accumulated translates into higher standards which in turn increase our future prospects.

OCCUPATIONAL HEALTH AND SAFETY

In the interest of minimising the risk of accidents, injuries and illness to its employees, working parties and local communities, the Group is committed to continuous improvement in health and safety standards in its workplace. That being said, the Group ensures the necessary safety measures at all areas of operations are in place at all times. This is done through an appointed Safety Manager and a team of Safety Officers who work with the General Managers as well as the supervisors. These efforts have allowed the Group to successfully renew their BS OHSAS 18001 Occupational Health and Safety Management standards, in December 2014, which outline the best practices for occupational health and safety management.

Additionally, the Group has attained the highest status for bizSAFE certification in October 2014. This certification is obtained through comprehensive risk assessments and consequently creating implementation plans to improve overall workplace and health control. This achievement is a testament to a company's workplace and health management and the Group takes pride in having achieved the highest level, the bizSAFE Level Star.

ENVIRONMENTAL CONSERVATION

The Group also actively reiterates to its workforce the significance of environmental conservation. During the year, analysis was done across the Group's operations to locate sources of wastage and areas of improvement with regards to environmental performance. The identified sources were reformed and enhanced to ensure optimal performance of operations without the compromise of standards. In additional to benefitting the environment, the Group reaped cost savings which came from lower fuel costs and utility expenses.

As a result of the Group's environmental conservation efforts, it was able to renew its ISO 14001:2004 certification in December 2013 which certifies that the Group operates a quality management system for the provision of Shipbuilding and Engineering services, and for the provision of Land and Marine Logistics services.

MOVING FORWARD WITH THE COMMUNITY

The Group recognises the importance of maintaining a strong relationship with the community it operates in, and will continue to uphold its social responsibilities. Moving forward, the Group will actively seek meaningful ways to contribute to the community.

CORPORATE STRUCTURE

KIM HENG
OFFSHORE & MARINE HOLDINGS LIMITED

- Kim Heng Offshore & Marine Pte Ltd
  - Alpine Progress Shipping Pte Ltd
  - Kim Heng Marine & Oilfield Pte Ltd
    - Kim Heng Heavy Equipment Pte Ltd
  - Kim Heng Tubulars Pte Ltd
  - Kim Heng Maritime Pte Ltd
  - Kim Heng Shipbuilding & Engineering Pte Ltd

CORPORATE INFORMATION

BOARD OF DIRECTORS
Tan Keng Siong Thomas - Executive Chairman and CEO
Yeo Seh Hong - Executive Director and COO
Tan Chow Boon - Non-Executive Director
Douglas Owen Chester - Lead Independent Director
Ho Boon Chuan Wilson - Independent Director
Ong Sie Hou Raymond - Independent Director

AUDIT COMMITTEE
Ho Boon Chuan Wilson – Chairman
Douglas Owen Chester
Ong Sie Hou Raymond

REMUNERATION COMMITTEE
Ong Sie Hou Raymond – Chairman
Douglas Owen Chester
Ho Boon Chuan Wilson

NOMINATING COMMITTEE
Douglas Owen Chester – Chairman
Ong Sie Hou Raymond
Ho Boon Chuan Wilson

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201311482K

COMPANY SECRETARIES
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Partner-in-charge:
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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**"). As part of the continuous effort to improve the Group's risk governance framework, the Board has expanded the function of the Audit Committee ("**AC**") to include risk management functions and responsibility in November 2014 to oversee the adequacy and effectiveness of the Group's risk management framework and policies and the AC was renamed as the Audit & Risk Committee ("**ARC**").

The Board confirms that the Company and Group have, for the financial year ended 31 December 2014 ("**FY2014**"), generally adhered to the principles and guidelines as set out in the Code. Where there are deviations from the Code, appropriate explanations are provided.

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 of the Company ("**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;
- overseeing succession planning for the 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.

CORPORATE GOVERNANCE REPORT

The Board has delegated specific responsibilities to the committees of the Board, namely, the Nominating Committee ("**NC**"), the Remuneration Committee ("**RC**") and the 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 Directors and Independent Directors and each 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 is to operate and how decisions are to be taken. During the year, the Board has expanded the AC function to include the risk management functions and responsibility and renamed it as "Audit & Risk Committee". The terms of reference of the ARC has been revised to incorporate risk management functions.

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 Articles of Association 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 FY2014 is set out below:-

		Board Committees		
	Board	**Audit & Risk Committee**	**Remuneration Committee**	**Nominating Committee**
No. of Meeting(s) Held	4	4	1	2
	No. of Meetings Attended			
Tan Keng Siong Thomas	4	4*	1*	2*
Yeo Seh Hong	4	4*	1*	2*
Tan Chow Boon	4	4*	1*	2*
Ho Boon Chuan Wilson	4	4	1	2
Douglas Owen Chester	4	4	1	2
Ong Sie Hou Raymond	4	4	1	2

By invitation

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 the contributions by Board members in other forms, including periodical reviews and the provision of guidance and advice 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.

CORPORATE GOVERNANCE REPORT

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 given 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 get familiarised 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 as relevant and/or applicable. During the year, the Board had 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.

As at the date of this Report, the Board comprises six (6) Directors, four (4) of whom are Non-Executive Directors, of which three (3) are independent. 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**")	–	–	–
Yeo Seh Hong	Executive Director & Chief Operating Officer	–	–	–
Douglas Owen Chester	Lead Independent Director	Member	Chairman	Member
Ho Boon Chuan Wilson	Independent Director	Chairman	Member	Member
Ong Sie Hou Raymond	Independent Director	Member	Member	Chairman
Tan Chow Boon	Non-Executive Director	–	–	–

To strengthen the independence of the Board, the Board has appointed Mr Douglas Owen Chester as its Lead Independent Director. As Independent Directors make up half of the Board, there is a strong and independent element on the Board and no individual or groups of individuals are able to 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 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.

CORPORATE GOVERNANCE REPORT

The Board's composition is to be reviewed annually by the NC to ensure that the Board has the appropriate mix of expertise and experience. The NC is of the view that the current Board comprises persons whose diverse skills, experience and attributes provide for an effective Board. The Board members also collectively possess the necessary core competencies for the effective functioning of the Board and an informed decision-making process. The profile of the Directors is set out on pages 12 to 14 of this annual report.

The NC has reviewed and is satisfied that the current composition and board size is appropriate for effective decision-making, having taken into consideration the nature and scope of the Group's operations.

As three (3) out of its six (6) 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 is part of the management team and is not an independent director, is satisfied. 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 NC has reviewed, determined and confirmed the independence of the Independent Directors.

The Independent and Non-Executive Directors communicated without the presence of the Management as and when the need arose. The Company also benefited 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, he assumes responsibility for the smooth functioning of the Board and ensures timely flow of information between the Management and the Board; sets the agenda and ensures that adequate time is available for discussion of all agenda items, in particular strategic issues; promotes a culture of openness and debate at the Board; and promotes 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 it is presently 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 Douglas Owen Chester has been appointed as the Lead Independent Director of the Company. Mr Douglas Owen Chester is available to shareholders where there are concerns or issues which could not be resolved with, or inappropriate to be communicated to, the Executive Chairman and CEO and/or Chief Financial Officer.

CORPORATE GOVERNANCE REPORT

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, all of whom, including the NC Chairman, are Independent Directors:

Mr Douglas Owen Chester - Chairman
Mr Ong Sie Hou Raymond - Member
Mr Ho Boon Chuan Wilson - Member

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.

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;

CORPORATE GOVERNANCE REPORT

- 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 is to 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 as well as consultants.

The NC has considered and taken the view that it would not 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 three (3) directorships in other listed companies. The NC is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Company and the Group, notwithstanding that some of the Directors have multiple board representations. 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.

The NC also reviews the independence of the Directors as mentioned under Guideline 2.3 of the Code on an annual basis. The NC has affirmed that Mr Douglas Owen Chester, Mr Ong Sie Hou Raymond and Mr Ho Boon Chuan Wilson are independent and free from any relationship outlined in the Code. Mr Ong Sie Hou Raymond is currently a director in a legal firm where one of the partners of the firm rendered professional legal services to the Group in FY2014. 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 Mr Ong Sie Hou Raymond is independent. Each of the Independent Directors has also confirmed his independence. None of the Independent Directors have served on the Board beyond nine (9) years from their respective date of appointment. Guideline 2.4 of the Code is therefore not applicable to the Board.

Pursuant to Article 103 of the Company's Articles of Association, 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 Articles of Association of the Company, to seek re-election at the forthcoming AGM:

1. Mr Ho Boon Chuan Wilson and;

2. Mr Tan Chow Boon

In making the recommendations, the NC considers the overall contribution and performance of the Directors. Mr Ho Boon Chuan Wilson, being a NC member, 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 into the Group's principal subsidiaries. The Board will inform the revised Board structures of the principal subsidiaries and the appointment of Independent Director into the principal subsidiaries from time to time.

CORPORATE GOVERNANCE REPORT

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

The date of each of the Directors' initial reappointment, last re-election and their directorships 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	28 April 2014	Nil	Nil
Yeo Seh Hong	26 December 2013	28 April 2014	Nil	Nil
Tan Chow Boon	26 December 2013	28 April 2014 (to be re-elected at the forthcoming AGM)	Nil	Nil
Douglas Owen Chester	26 December 2013	28 April 2014	Listed Companies 1. Civmec Limited 2. Stamford Land Corporation Limited	Nil
Ong Sie Hou Raymond	26 December 2013	28 April 2014	Listed Companies 1. Sunvic Chemical Holdings Limited	Nil
Ho Boon Chuan Wilson	26 December 2013	28 April 2014 (to be re-elected at the forthcoming AGM)	Listed Companies 1. Sysma Holdings Limited	Listed Companies 1. Challenger Technologies 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 view on the various aspects of the self and Board performance so as to assess the overall effectiveness of the Board.

CORPORATE GOVERNANCE REPORT

The completed questionnaire will be collated by the Company Secretary and the results of the evaluation exercise will be considered by the NC, which will then make recommendations to the Board, aimed at assisting the Board to discharge its duties more effectively.

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.

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 Management's proposals to the Board for approval include background and explanatory information such as facts, resources needed, risk analysis and mitigation strategies, financial impact, regulatory implications, expected outcomes, conclusions and recommendations. 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 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 Memorandum and Articles of Association, relevant rules and regulations, including requirements of the Companies Act (Chapter 50) of Singapore and Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist ("**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 appointment and the removal of the Company Secretary rest with the Board. 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.

CORPORATE GOVERNANCE REPORT

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, including the RC Chairman, are Independent Directors:

Mr Ong Sie Hou Raymond - Chairman
Mr Douglas Owen Chester - Member
Mr Ho Boon Chuan Wilson - Member

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.

CORPORATE GOVERNANCE REPORT

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 Directors do not receive Directors' fees. The annual variable bonus and performance-related component of remuneration is designed to align the interests of the Executive Directors 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 Directors 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. Each of the Executive Directors 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 Directors 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 remuneration of Non-Executive Directors is in the form of a fixed fee which will be subject 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 related employees 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 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.

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.

CORPORATE GOVERNANCE REPORT

Details of the remuneration of the Directors and key management personnel of the Group for FY2014 are set out below:

Directors	Breakdown of Remuneration in Percentage (%)					
	Fees (%)	Salary (%)	Benefits-in-kind (%)	Variable Bonus (%)	Total (%)	
Tan Keng Siong Thomas	–	80	–	20	100	Band D
Yeo Seh Hong	–	82	–	18	100	Band C
Douglas Owen Chester	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

Key Management	Designation	Breakdown of Remuneration in Percentage (%)				
		Salary (%)	Benefits-in-kind (%)	Variable Bonus (%)	Total (%)	
Tan Kah Seng	Chief Financial Officer	80	–	20	100	Band A
Chen Biqing[(a)]	General Manager – Marine & Support Services	87	4	9	100	Band A
Tan Keng Hoe Melvin[(b)]	General Manager – Supply Chain Management	80	2	18	100	Band B
Sanket Ashok Kumar	General Manager – Offshore & Marine Services	83	–	17	100	Band B
Heng Aik Soon	General Manager – Yard	81	–	19	100	Band A
Chang Boon Kong[(c)]	Managing Director of a subsidiary of the Company, Kim Heng Shipbuilding & Engineering Pte. Ltd.	93	–	7	100	Band A

Notes:

(a) Ms Chen Biqing is the niece of Mr Tan Keng Siong Thomas and Mr Tan Keng Hoe Melvin. Ms Chen has resigned on 30 September 2014.

(b) Mr Tan Keng Hoe Melvin is the brother of Mr Tan Keng Siong Thomas.

(c) Mr Chang Boon Kong was appointed as Managing Director of a subsidiary of the Company, Kim Heng Shipbuilding & Engineering Pte. Ltd., on 1 August 2014. Mr Chang has tendered his resignation and his effective date of resignation is 30 April 2015.

Band A: Compensation from S$0 to S$250,000 per annum
Band B: Compensation from S$250,001 to S$500,000 per annum
Band C: Compensation from S$500,001 to S$750,000 per annum
Band D: Compensation from S$1,250,001 and above per annum

CORPORATE GOVERNANCE REPORT

In aggregate, the total remuneration (including CPF contribution, bonus and benefits-in-kind) paid to the top five (5) key management personnel (who are not Directors or the CEO) in FY2014 was S$1,477,991.

To maintain confidentiality on the remuneration policies of the Company, due to sensitive nature of such information, 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.

The Group's former Chief Operating Officer, Mr Tan Sek Khoon, retired from the Group on 13 January 2014. In recognition and to reward Mr Tan Sek Khoon's long service and contribution to the growth of the Group over the past 40 years, the Group is paying him an honorarium of S$300,000 per annum for three (3) years after his retirement until the financial year ending 31 December 2016. Save as disclosed, there are no termination, retirement and post-employment benefits that may be granted to the Directors and key management personnel.

Pursuant to Guideline 9.4 of the Code, the details of the remuneration (which comprises salaries, bonuses and benefits-in-kind only) of employees who are immediate family members of a Director or the CEO, and whose remuneration exceeded S$50,000 during the year are disclosed below. During FY2014, the following immediate family members of the Executive Chairman and CEO, Mr Tan Keng Siong Thomas, were employees of the Company:

Name	Family relationship	Designation	Compensation Band
Tan Sek Khoon*	Brother of Tan Keng Siong Thomas	Nil	Band C
Tan Keng Hoe Melvin	Brother of Tan Keng Siong Thomas	General Manager – Supply Chain Management	Band D
Tan Peck Ling Jocelyn	Daughter of Tan Keng Siong Thomas	Head of Corporate Services	Band A
Tan Peck Ching Jeliane	Daughter of Tan Keng Siong Thomas	Senior Purchasing Manager	Band A

**Mr Tan Sek Khoon retired from the Group with effect from 13 January 2014. In deriving the compensation band for Mr Tan Sek Khoon, the honorarium of S$300,000 was included in the computation.*

Band A: Compensation from S$150,001 to S$200,000 per annum
Band B: Compensation from S$200,001 to S$250,000 per annum
Band C: Compensation from S$300,001 to S$350,000 per annum
Band D: Compensation from S$350,001 and above per annum

Save as disclosed above, none of the full-time employees are related to the Directors or substantial shareholders except for Mr Tan Wen Hao Justin Anderson, son of Mr Tan Keng Siong Thomas whose total remuneration for FY2014 did not exceed S$50,000.

The Company had entered into fixed-period service agreements with the Executive Directors, namely, Mr Tan Keng Siong Thomas and Ms Yeo Seh Hong, governing the terms and conditions of their employment by the Company. The remuneration packages for the Executive Directors are based on terms stipulated in their service agreements. 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, while Ms Yeo Seh Hong is entitled to discretionary variable bonus (if any).

CORPORATE GOVERNANCE REPORT

The Company has adopted a performance share plan known as the "Kim Heng Performance Share Plan" ("**Kim Heng PSP**") and a share option scheme known as the "Kim Heng Employee Share Option Scheme" ("**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 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.

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.

CORPORATE GOVERNANCE REPORT

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 regularly reviews and updates the Board 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 and mitigate these risks. All significant matters were 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 PricewaterhouseCoopers LLP ("**PWC**") as the outsourced internal auditors who will carry out internal audit reviews and perform 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. 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 FY2014 give a true and fair view of the Group's operations and finances 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.

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.

During the year, the Board has expanded the function of the AC to include risk management functions and responsibility and renamed the AC as "Audit & Risk Committee" ("**ARC**").

CORPORATE GOVERNANCE REPORT

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

Mr Ho Boon Chuan Wilson - Chairman
Mr Douglas Owen Chester - Member
Mr Ong Sie Hou Raymond - Member

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;

CORPORATE GOVERNANCE REPORT

- 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;
- 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;

CORPORATE GOVERNANCE REPORT

- 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 Management Risk Committee; 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 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;

(iv) reviewed interested person transactions of the Group;

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

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

(vii) reviewed and adopted the whistle blowing policy;

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

(ix) reviewed and adopted the revised terms of reference of the ARC; and

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

The aggregate amount of audit and non-audit fees paid or payable to the external auditors, KPMG LLP, for FY2014 are S$300,000 and S$36,300 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. In FY2014, the Company has implemented an ERM framework to perform risk assessment review on areas of significant business risks as well as the appropriate measures to control and mitigate these risks. The ARC has approved the appointment of a qualified public accounting firm, 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. PwC plans their internal audit schedules in consultation with the Management.

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.

CORPORATE GOVERNANCE REPORT

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 ended and 60 days from the full financial year ended. In addition, the Annual Report 2014 is distributed to shareholders at least 14 days before the AGM to be held on 29 April 2015.

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.

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.

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 0.5 Singapore cents per ordinary share in respect of FY2014, subject to shareholders' approval at the forthcoming AGM.

The Group supports and encourages active shareholders' participation 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.

CORPORATE GOVERNANCE REPORT

The Company's Articles of Association allows all shareholders to appoint proxies to attend general meetings and vote on their behalf. As the authentication of shareholder identity information and other related security issues still remain a concern, the Group has decided, for the time being, not to implement voting in absentia by mail, email or fax. 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.

For greater transparency, 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 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 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 FY2014.There were no interested party transactions of aggregate value exceeding S$100,000 for FY2014.

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 agreements between the Company and the Executive Directors, 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 FY2014, 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)

There was no non-sponsor fee paid to the Company's Sponsor, Canaccord Genuity Singapore Pte. Ltd. subsequent to the Company's listing on the Catalist to the date of printing of this Annual Report.

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

(Rule 1204(22) of the Catalist Rules)

As at 31 December 2014, the IPO proceeds have been utilised as follows:

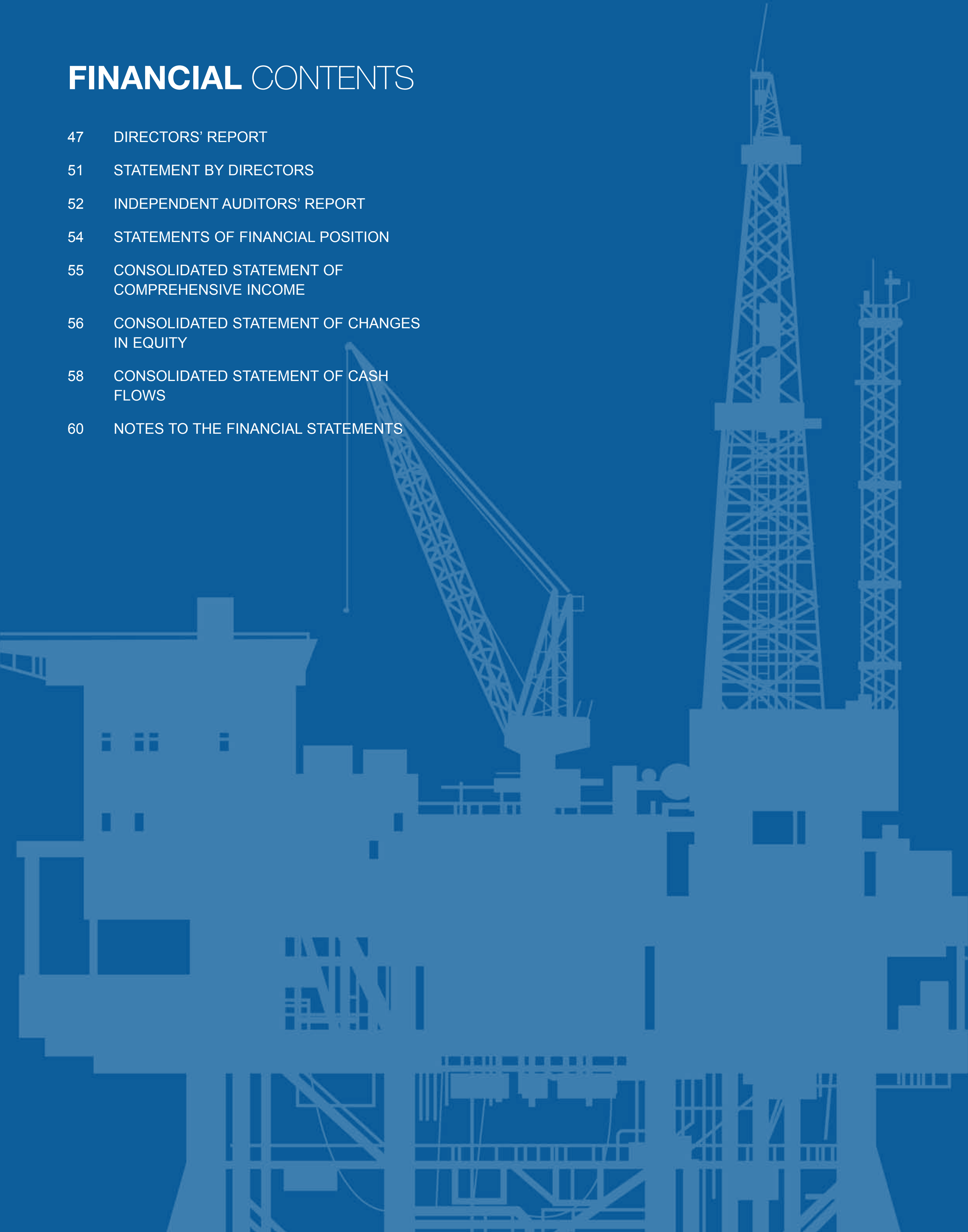
Intended Usage in accordance with the Offer Document	**Allocation ($'000)**	**Amount utilised ($'000)**	**Amount unutilised ($'000)**
Capital expenditure for enhancement of yard facilities and fleet expansion	20,000	–	20,000
Expansion of business scope via investments, acquisitions and strategic alliances	7,000	–	7,000
General working capital	9,400	(3,000)	6,400
IPO Expenses	3,600	(3,490)	110
Total	**40,000**	(6,490)	33,510

General working capital of S$3 million utilized for the purchase of materials for trading purpose.

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' REPORT

The Directors of the Company present their report to the members together with the audited financial statements of the Group for the financial year ended 31 December 2014 and the statement of financial position of the Company as at 31 December 2014.

DIRECTORS

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

Tan Keng Siong Thomas
Yeo Seh Hong
Ho Boon Chuan Wilson
Douglas Owen Chester
Ong Sie Hou Raymond
Tan Chow Boon

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

According to the Register of Directors' Shareholdings kept by the Company under Section 164 of the Singapore Companies Act, Chapter 50 (the "Act"), none of the Directors of the Company holding office at the end of the financial year had any interests in the shares or debentures of the Company and its related corporations, except as follows:

	Shareholdings registered in the name of Directors		Shareholdings in which Directors are deemed to have an interest	
	At 1 January 2014	At 31 December 2014	At 1 January 2014	At 31 December 2014
	Number of ordinary shares			
The Company				
Tan Keng Siong Thomas	–	1,500,000	299,200,000	299,200,000
Tan Chow Boon	–	–	124,999,600	124,999,600
Yeo Seh Hong	–	100,000	–	–
Ho Boon Chuan Wilson	–	100,000	–	–
Ong Sie Hou Raymond	–	100,000	–	–

DIRECTORS' REPORT

By virtue of Section 7 of the Act, Tan Keng Siong Thomas is deemed to have interests in the shares held by KH Group Holdings Pte. Ltd. in the Company. Thomas Tan, 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.

By virtue of Section 7 of the Act, Tan Chow Boon is deemed to have interests in the shares held by Credence Capital Fund II (Cayman) Limited in the Company.

In accordance with the continuing listing requirements of Catalist of Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the Directors of the Company state that, according to the Register of Directors' Shareholdings, the Directors' interests as at 21 January 2015 in the shares of the Company have not changed from those disclosed as at 31 December 2014.

DIRECTORS' CONTRACTUAL BENEFITS

Since the end of last financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except for salaries, bonuses and other benefits that are disclosed in this report and in note 27 of the accompanying financial statements.

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 end and at the date of this report are:

- Ho Boon Chuan Wilson (Chairman) Independent Director
- Douglas Owen Chester (Member) Lead Independent Director
- Ong Sie Hou Raymond (Member) Independent Director

DIRECTORS' REPORT

The Audit & Risk Committee performed the functions specified in Section 201B (5) of the Act and the Singapore 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;

(iv) reviewing the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity 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 indentifying, measuring, monitoring and controlling risks and the extent to which these 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 recommend 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 confirmed that it has undertaken a review of all non-audit services provided by the external auditors to the Group and is satisfied that the nature and extent of such services would not affect the independence of the external auditors.

The Audit & Risk Committee has full access to and has the co-operation of the Management and has been given the resources required for it to discharge its function properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the Audit & Risk Committee.

In appointing our auditors for the Company, subsidiaries and significant associated companies, we have complied with Rules 712 and 715 of the Rules of Catalist of the SGX-ST.

The Audit & Risk Committee has recommended to the Board of Directors the nomination of KPMG LLP, for re-appointment as external auditors of the Group at the forthcoming Annual General Meeting.

DIRECTORS' REPORT

INDEPENDENT AUDITORS

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

On behalf of the Board of Directors

Tan Keng Siong Thomas
Director

Yeo Seh Hong
Director

2 April 2015

STATEMENT BY DIRECTORS

In our opinion:

(a) the financial statements set out on pages 54 to 99 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014 and the results, 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.

On behalf of the Board of Directors

Tan Keng Siong Thomas
Director

Yeo Seh Hong
Director

2 April 2015

INDEPENDENT AUDITORS' REPORT

Members of the Company
Kim Heng Offshore & Marine Holdings Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Kim Heng Offshore & Marine Holdings Limited (the Company) and its subsidiaries (the Group), which comprise the statements of financial position of the Group and of the Company as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and the statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 54 to 99.

Management's responsibility 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 Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards, 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 profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT

Members of the Company
Kim Heng Offshore & Marine Holdings Limited

Opinion

In our opinion, the consolidated financial statements of the Group and statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014, and the results, changes in equity and cash flows of the Group for the year ended on that date.

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 subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
2 April 2015

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2014

	Note	Group 2014 $'000	Group 2013 $'000	Company 2014 $'000	Company 2013 $'000
Assets					
Property, plant and equipment	4	63,206	57,779	4	–
Club memberships	5	89	44	–	–
Subsidiaries	6	–	–	36,133	36,133
Non-current assets		63,295	57,823	36,137	36,133
Inventories	7	2,232	691	–	–
Trade and other receivables	8	14,625	28,187	15,716	4,242
Cash and cash equivalents	9	49,894	3,504	32,168	–
Non-current asset held for sale	10	–	1,792	–	–
Current assets		66,751	34,174	47,884	4,242
Total assets		130,046	91,997	84,021	40,375
Equity					
Share capital	11	74,409	36,133	74,409	36,133
Reserves	12	(32,740)	(32,949)	–	–
Accumulated profits		56,383	54,316	9,016	4,000
Equity attributable to owners of the Company		98,052	57,500	83,425	40,133
Liabilities					
Loans and borrowings	13	4,730	3,991	–	–
Deferred tax liabilities	14	5,843	5,872	–	–
Non-current liabilities		10,573	9,863	–	–
Loans and borrowings	13	3,397	4,192	–	–
Trade and other payables	15	17,814	17,149	484	242
Current tax payable		210	3,293	112	–
Current liabilities		21,421	24,634	596	242
Total liabilities		31,994	34,497	596	242
Total equity and liabilities		130,046	91,997	84,021	40,375

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

	Note	Group 2014 $'000	Group 2013 $'000
Revenue	17	77,978	84,813
Cost of sales		(51,014)	(48,359)
Gross profit		26,964	36,454
Other income	18	2,448	842
Distribution expenses		(1,985)	(1,601)
Administrative expenses		(16,617)	(16,258)
Other expenses		(4,574)	1,631
Results from operating activities		6,236	21,068
Finance costs	19	(422)	(722)
Profit before tax	20	5,814	20,346
Tax expense	21	(197)	(3,253)
Profit for the year		5,617	17,093
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Translation differences relating to financial statements of foreign operations		209	49
Total comprehensive income for the year		5,826	17,142
Earnings per share			
Basic and diluted earnings per share (cents)	22	0.8	3.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Note	Share capital $'000	Merger deficit $'000	Currency translation reserve $'000	Accumulated profits $'000	Total equity $'000
Group						
At 1 January 2013		3,370	–	(235)	40,226	43,361
Total comprehensive income for the year						
Profit for the year		–	–	–	17,093	17,093
Other comprehensive income						
Translation differences relating to financial statements of foreign operations		–	–	49	–	49
Total comprehensive income for the year		–	–	49	17,093	17,142
Transactions with owners, recognised directly in equity						
Contributions by and distributions to owners						
Adjustment pursuant to restructuring exercise		(3,370)	(32,763)	–	(3)	(36,136)
Issuance of restructuring shares	6	36,133	–	–	–	36,133
Dividends	24	–	–	–	(3,000)	(3,000)
Total transactions with owners		32,763	(32,763)	–	(3,003)	(3,003)
At 31 December 2013		36,133	(32,763)	(186)	54,316	57,500

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Note	Share capital $'000	Merger deficit $'000	Currency translation reserve $'000	Accumulated profits $'000	Total equity $'000
At 1 January 2014		36,133	(32,763)	(186)	54,316	57,500
Total comprehensive income for the year						
Profit for the year		–	–	–	5,617	5,617
Other comprehensive income						
Translation differences relating to financial statements of foreign operations		–	–	209	–	209
Total comprehensive income for the year		–	–	209	5,617	5,826
Transactions with owners, recognised directly in equity						
Contributions by and distributions to owners						
Issuance of shares, net of shares issue expenses	11	38,276	–	–	–	38,276
Dividends	24	–	–	–	(3,550)	(3,550)
Total transactions with owners		38,276	–	–	(3,550)	34,726
At 31 December 2014		74,409	(32,763)	23	56,383	98,052

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Note	Group 2014 $'000	Group 2013 $'000
Cash flows from operating activities			
Profit before tax		5,814	20,346
Adjustments for:			
Depreciation of property, plant and equipment	4	4,031	4,427
(Gain)/loss on disposal of property, plant and equipment	18	(1,069)	238
Interest income	18	(297)	(3)
Interest expense	19	422	722
		8,901	25,730
Changes in:			
- inventories		(1,542)	752
- trade and other receivables		14,241	(4,602)
- trade and other payables		2,457	(838)
- amounts due to directors		–	(120)
Cash generated from operations		24,057	20,922
Tax paid		(3,308)	(723)
Net cash from operating activities		20,749	20,199
Cash flows from investing activities			
Deposits pertaining to purchase of property, plant and equipment		(680)	(497)
Purchase of property, plant and equipment		(7,720)	(3,111)
Advance receipts pertaining to purchase of property, plant and equipment		–	1,800
Proceeds from disposal of property, plant and equipment		5,029	5,764
Acquisition of club membership		(45)	–
Interest received		297	3
Net cash (used in)/from investing activities		(3,119)	3,959

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

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2014

	Note	Group 2014 $'000	Group 2013 $'000
Cash flows from financing activities			
Interest paid		(422)	(722)
Dividend paid		(3,550)	(4,753)
Repayment of finance lease liabilities – net		(2,196)	(6,138)
Repayment of trust receipts		–	(1,233)
Repayment of term loans		(3,557)	(6,468)
Proceeds from issue of share capital		38,445	–
Payment of share issue expenses		(169)	–
Deposits pledged		206	(264)
Net cash from/(used in) financing activities		28,757	(19,578)
Net increase in cash and cash equivalents		46,387	4,580
Cash and cash equivalents at 1 January		2,335	(2,281)
Effect of exchange rate fluctuations on cash and cash equivalents		209	36
Cash and cash equivalents at 31 December	9	48,931	2,335

	2014 $'000	2013 $'000
Significant non-cash transactions		
Purchase of property, plant and equipment under finance leases, term loans and deposits	5,697	5,781
Issuance of restructuring shares	–	36,133

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 2 April 2015.

1 DOMICILE AND ACTIVITIES

Kim Heng Offshore & Marine Holdings Limited (the "Company" or "KHOMH"), formerly known as Namilton Pte Ltd, is a company incorporated in the Republic of Singapore on 29 April 2013. 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 2014 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

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

NOTES TO THE FINANCIAL STATEMENTS

2 BASIS OF PREPARATION (Cont'd)

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.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following note:

- Note 4 – depreciation and impairment of property, plant and equipment
- Note 8 – allowance for doubtful receivables

2.5 Changes in accounting policies

With effect from 1 January 2014, the Group adopted the new or revised FRS that are mandatory for application from that date. The adoption of these new or revised FRS did not have any significant impact on the financial statements.

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.

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. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

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.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. 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. Any excess or deficiency of the nominal value of the shares acquired is taken to the shareholder's equity as a merger reserve or deficit.

(iv) 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.

(v) 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 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 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 end of the reporting period. 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 currency 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 non-controlling interests.

3.3 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Recognition and measurement (Cont'd)

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 is determined by comparing the net proceeds from disposal with the carrying amount of the item, and 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. 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. Property, plant and equipment under construction are not depreciated.

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

Freehold building	30 years
Leasehold land and building	remaining lease term of 1 - 22 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.

3.4 Club memberships

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

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.5 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.

3.6 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. It is measured at cost plus profit recognised to date 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.

3.7 Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) 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.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.7 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 legal 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 comprise cash balances and short-term deposits with maturities of three months or less from the acquisition date 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 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 expired.

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 legal 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 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.

The Group's non-derivative financial liabilities comprise loans and borrowings, and trade and other payables.

(iii) Share capital

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 recognised as a liability in the period in which they are declared.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.7 Financial instruments (Cont'd)

(iv) Financial guarantees

Financial guarantees are financial instruments issued by the Company that require the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are recognised initially at fair value and are classified as financial liabilities

Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised if they were accounted for as contingent liabilities. When financial guarantees are terminated before their original expiry date, the carrying amount of the financial guarantee is transferred to profit or loss.

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 date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect 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, or indications that a debtor or issuer will enter bankruptcy, or 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, 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 a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Impairment (Cont'd)

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets 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.

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 CGU.

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 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 services are rendered by employees.

(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.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.10 Provision

A provision is recognised if, as a result of past event, the Group has a present legal or a constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits 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. The unwinding of the discount is recognised as finance cost.

3.11 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 and allowances, 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, towage 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.

(iii) Rendering of services

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

(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.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.12 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.

3.13 Leases

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 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; the arrangement contains a right to use the asset.

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.

3.14 Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates 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.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.14 Tax (Cont'd)

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.

- 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 end of the reporting period, 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.

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.

3.15 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.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.16 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.

3.17 New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group. The Group does not plan to adopt these standards early.

NOTES TO THE FINANCIAL STATEMENTS

4 PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land and building $'000	Renovation and improvements $'000	Machinery and equipment $'000	Vessels $'000	Furniture, fittings, office equipment and computers $'000	Assets under construction $'000	Total $'000
Cost							
At 1 January 2013	5,457	484	51,415	34,364	1,508	–	93,228
Additions	233	–	185	8,869	102	–	9,389
Reclassification to asset held for sale	–	–	–	(2,585)	–	–	(2,585)
Disposals	–	–	(1,978)	(7,364)	(124)	–	(9,466)
Translation differences	–	16	1	–	14	–	31
At 31 December 2013	5,690	500	49,623	33,284	1,500	–	90,597
Additions	1,433	–	908	10,670	190	216	13,417
Disposals	–	–	(908)	(4,509)	(45)	–	(5,462)
Translation differences	–	23	1	–	21	–	45
At 31 December 2014	7,123	523	49,624	39,445	1,666	216	98,597
Accumulated depreciation							
At 1 January 2013	3,100	351	20,167	7,737	1,269	–	32,624
Depreciation for the year	124	96	2,424	1,672	111	–	4,427
Reclassification to asset held for sale	–	–	–	(793)	–	–	(793)
Disposals	–	–	(1,694)	(1,647)	(124)	–	(3,465)
Translation differences	–	12	1	–	12	–	25
At 31 December 2013	3,224	459	20,898	6,969	1,268	–	32,818
Depreciation for the year	111	41	2,117	1,676	86	–	4,031
Disposals	–	–	(758)	(699)	(45)	–	(1,502)
Translation differences	–	23	1	–	20	–	44
At 31 December 2014	3,335	523	22,258	7,946	1,329	–	35,391
Carrying amounts							
At 1 January 2013	2,357	133	31,248	26,627	239	–	60,604
At 31 December 2013	2,466	41	28,725	26,315	232	–	57,779
At 31 December 2014	3,788	–	27,366	31,499	337	216	63,206

NOTES TO THE FINANCIAL STATEMENTS

4 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The carrying amounts of property, plant and equipment of the Group as at the reporting date include amounts totalling $7,229,000 in respect of machinery and equipment held under finance leases (2013: $12,254,000).

As at the reporting date, property, plant and equipment amounting to $12,507,000 is pledged as collaterals for secured term loans and bank overdrafts (2013: $13,201,000).

Company	Furniture, fittings, office equipment and computers $'000
Cost	
At 1 January 2013 and 31 December 2013	–
Additions	6
At 31 December 2014	6
Accumulated depreciation	
At 1 January 2013 and 31 December 2013	–
Depreciation charge during the year	(2)
At 31 December 2014	(2)
Carrying amounts	
At 1 January 2013 and 31 December 2013	–
At 31 December 2014	4

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 30 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.

The Group assesses the carrying amount of its property, plant and equipment against their recoverable amounts at each reporting date to determine whether there is an indication of impairment. The estimated recoverable amounts are based on valuation report obtained from an independent valuer or market values, being the estimated amount for which 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 could change significantly as a result of changes in market conditions and the assumptions used in determining the market value.

NOTES TO THE FINANCIAL STATEMENTS

5 CLUB MEMBERSHIPS

	Group 2014 $'000	Group 2013 $'000	Company 2014 $'000	Company 2013 $'000
Cost	151	106	–	–
Impairment losses	(62)	(62)	–	–
	89	44	–	–

6 SUBSIDIARIES

	Company 2014 $'000	Company 2013 $'000
Equity investments, at cost	36,133	36,133

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Effective equity held by the Company 2014 %	Effective equity held by the Company 2013 %
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
Kim Heng Shipbuilding & Engineering Pte Ltd	Republic of Singapore	100	100
Alpine Progress Shipping Pte Ltd	Republic of Singapore	100	100

KPMG LLP is the auditor of all the subsidiaries.

For the purpose of listing the Group on the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Group underwent a restructuring exercise (the "Restructuring Exercise"). KHOMH acquired the entire issued and paid up capital of KHOM for a purchase consideration of $2.00 in cash on 21 May 2013.

Pursuant to a sale and purchase agreement dated 15 May 2013 as amended and restated by an accession, amended and restated agreement dated 6 June 2013 entered into between KHOMH, KHOM and the shareholders of KHMO, KHM, KHT, KHSE and APS (the "SPA"), KHOM acquired the entire issued and paid-up capital of KHMO, KHM, KHT, KHSE and APS for a total purchase consideration of $36,133,199 based on the respective net tangible asset of the companies as at 31 December 2011. The purchase consideration was satisfied by the allotment and issuance of 999,998 new shares (the "Consideration Shares") in the capital of KHOM to the shareholders of KHMO, KHM, KHT, KHSE and APS (the "Vendors").

NOTES TO THE FINANCIAL STATEMENTS

6 SUBSIDIARIES (Cont'd)

In accordance with the terms of the SPA, the Vendors directed that the Consideration Shares be allotted and issued to KHOMH and that KHOMH would in turn allot and issue 999,998 new shares ("Restructuring Shares") in the capital of the Company to the Vendors or any persons they may nominate. Upon the completion of the Restructuring Exercise, KHOMH became the holding company of KHOM and KHOM became the holding company of KHMO, KHM, KHT, KHSE and APS. KHOMH had issued 845,453 Restructuring Shares in relation to the Restructuring Exercise.

Pursuant to an investment agreement dated 15 May 2013 as amended by an accession, amended and restated agreement dated 6 June 2013 (the "Investment Agreement"), the balance 154,545 Restructuring Shares was issued to a shareholder on 24 December 2013.

7 INVENTORIES

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Finished goods - at cost	2,979	1,955	–	–
Allowance for inventory obsolescence	(1,286)	(1,470)	–	–
	1,693	485	–	–
Vessels under construction	539	206	–	–
	2,232	691	–	–

Changes in inventories recognised in cost of sales in profit or loss amounted to $1,287,000 (2013: $4,792,000).

Allowance for inventory obsolescence

A review is performed periodically on inventory to identify excess inventory, obsolescence and declines in net realisable value below cost and an allowance is recorded against the inventory balance for any such declines. These reviews require management to estimate future demand for the Group's products. Possible changes in these estimates could result in revisions to the valuation of inventory. An increase in the Group's allowance for inventory obsolescence would increase the Group's recorded other expenses and decrease current assets.

The write-back of allowance for inventory obsolescence to net realisable value amounted to $246,000 (2013: $3,998,000).

NOTES TO THE FINANCIAL STATEMENTS

8 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Trade receivables	16,162	31,904	–	–
Allowance for impairment	(5,497)	(6,212)	–	–
Net receivables	10,665	25,692	–	–
Deposits	221	557	–	–
Accrued revenue	2,399	799	21	–
Dividends receivable	–	–	8,400	4,000
Amounts due from subsidiaries	–	–	7,257	242
Other receivables	410	409	13	–
Loans and receivables	13,695	27,457	15,691	4,242
Deposits pertaining to purchase of property, plant and equipment	681	497	–	–
Prepayments	249	233	25	–
	14,625	28,187	15,716	4,242

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

Allowance for doubtful receivables

The Group maintains an allowance for doubtful accounts 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 accounts would increase the Group's recorded other expenses and decrease current assets.

NOTES TO THE FINANCIAL STATEMENTS

9 CASH AND CASH EQUIVALENTS

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Cash at bank and in hand	23,701	2,335	6,937	–
Fixed deposits	26,193	1,169	25,231	–
Cash and cash equivalents	49,894	3,504	32,168	–
Deposits pledged	(963)	(1,169)	–	–
Cash and cash equivalents in the statement of cash flows	48,931	2,335	32,168	–

The fixed deposits bore interest at fixed rates at the year-end as follows:

	Group		Company	
	2014	2013	2014	2013
	%	%	%	%
Interest rate	0.18 – 1.30	0.10 – 0.28	1.20 – 1.30	NA

Maturity of fixed deposits range from a month to 3 months and interest rates are revised upon rollover of the fixed deposits.

The fixed deposit for the one of the entities within the Group amounting to $404,000 is pledged as security deposit for its operating lease of office premises and warehouse (2013: $407,000). The remaining fixed deposits amounting to $559,000 are pledged to secure bank overdrafts, trust receipts, term loans and finance lease liabilities (2013: $762,000) (see note 13).

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

10 NON-CURRENT ASSET HELD FOR SALE

An item of property, plant and equipment of the Group presented as an asset held for sale as at 31 December 2013 was subsequently sold in 2014.

NOTES TO THE FINANCIAL STATEMENTS

11 SHARE CAPITAL

	2014 No. of shares '000	2013 No. of shares '000
Issued and fully paid ordinary shares, with no par value:		
At 1 January	550,000	3,371
Adjustment pursuant to the Restructuring Exercise	–	(3,371)
Issued during the year	160,000	–
Issued pursuant to the Restructuring Exercise (Note 6)	–	550,000
At 31 December	710,000	550,000

Pursuant to the Restructuring Exercise, the Company issued 1,000,000 restructuring shares at an issue price of $36.13 per share. Pursuant to a members' resolution in writing on 26 December 2013, the shareholders approved the share split of the issued and paid-up ordinary shares of the Company wherein each share was split into 550 ordinary shares.

Pursuant to the listing of the Company on Catalist of the Singapore Exchange Securities Limited ("**SGX-ST**") on 22 January 2014, the Company issued 160,000,000 new shares at an issue price of $0.25. The total proceeds received, net of placement commission and other incidental charges, amounted to $38,276,000.

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.

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 monitor the revenue, profit or loss before tax and hence the return on capital.

The Board of Directors ensure 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 period.

The Group is not subject to externally imposed capital requirements except for one of the entities within the Group. The entity's loan facilities are subject to externally imposed capital requirements to maintain its financial position in excess of specified financial thresholds. The entity complied with these covenants at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

12 RESERVES

The reserves of the Group comprise the following balances:

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Merger deficit	(32,763)	(32,763)	–	–
Currency translation reserve	23	(186)	–	–
	(32,740)	(32,949)	–	–

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).

Currency translation reserve

The currency 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.

13 LOANS AND BORROWINGS

		Group		Company	
	Note	2014	2013	2014	2013
		$'000	$'000	$'000	$'000
Non-current liabilities					
Term loans	13(a)	3,777	2,392	–	–
Finance lease liabilities	13(a), (b)	953	1,599	–	–
		4,730	3,991	–	–
Current liabilities					
Term loans	13(a)	2,490	2,149	–	–
Finance lease liabilities	13(a), (b)	907	2,043	–	–
		3,397	4,192	–	–

(a) The banking facilities for bank overdrafts, trust receipts, term loans and finance lease liabilities are secured as follows:

- Corporate guarantees by the Company amounted to $17,385,000.
- Property, plant and equipment and fixed deposits as disclosed in notes 4 and 9 respectively; and
- Joint and several personal guarantees granted by Tan Keng Siong Thomas ("Thomas Tan") (Executive Chairman and CEO), Tan Sek Khoon ("S K Tan") (brother of Thomas Tan and a former director of the Group) and Chen Biqing (General Manager – Maritime and Support Services) to banks have been discharged during the year (2013: $33,271,000).

NOTES TO THE FINANCIAL STATEMENTS

13 LOANS AND BORROWINGS (Cont'd)

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

	Principal $'000	Interest $'000	Payments $'000
2014			
Payable within 1 year	907	56	963
Payable after 1 year but within 5 years	953	66	1,019
	1,860	122	1,982
2013			
Payable within 1 year	2,043	123	2,166
Payable after 1 year but within 5 years	1,586	101	1,687
Payable after 5 years	13	–	13
	3,642	224	3,866

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
2014				
Term loans				
- Fixed rate	2.00 – 3.50	2015 – 2018	2,705	2,705
- Floating rate	4.25	2018	3,562	3,562
Finance lease liabilities	1.35 – 3.45	2015 – 2019	1,982	1,860
			8,249	8,127
2013				
Term loans				
- Fixed rate	2.20 – 6.50	2014 – 2016	3,725	3,725
- Floating rate	4.25	2017	816	816
Finance lease liabilities	1.88 – 3.48	2014 – 2019	3,866	3,642
			8,407	8,183

NOTES TO THE FINANCIAL STATEMENTS

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 profit or loss (Note 21) $'000	At 31 December $'000
2014			
Deferred tax liabilities			
Property, plant and equipment	6,727	(29)	6,698
Deferred tax assets			
Provisions	(78)	–	(78)
Receivables	(777)	–	(777)
	(855)	–	(855)
	5,872	(29)	5,843
2013			
Deferred tax liabilities			
Property, plant and equipment	6,727	–	6,727
Deferred tax assets			
Provisions	(78)	–	(78)
Receivables	(777)	–	(777)
	(855)	–	(855)
	5,872	–	5,872

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		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Deferred tax liabilities	5,843	5,872	–	–

NOTES TO THE FINANCIAL STATEMENTS

14 DEFERRED TAX LIABILITIES (Cont'd)

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

	Group 2014 $'000	Group 2013 $'000	Company 2014 $'000	Company 2013 $'000
Unutilised tax losses	6,152	6,152	–	–
Deductible temporary differences	567	567	–	–
	6,719	6,719	–	–

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 2014 $'000	Group 2013 $'000	Company 2014 $'000	Company 2013 $'000
Trade payables	9,478	8,162	113	–
Accrued operating expenses	5,561	5,203	371	140
Advance billings	150	2,283	–	–
Deposits from customers	2,603	1,434	–	–
Dividends payable	–	32	–	–
Other payables	22	35	–	102
	17,814	17,149	484	242

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

Provision for performance guarantee

In 2007, KHMO issued a performance guarantee for an Australian project undertaken by T-D Joint Venture Pty Ltd ("TDJV"), in which a related party is a joint venture partner. The maximum potential amount of the performance guarantee is approximately $7 million. The performance guarantee was called by the customer in 2009. However, based on independent legal advice and subsequent developments of the project, the directors believe that it is not probable that there will be any outflow of cash required to settle the performance guarantee. Accordingly, no provision for the performance guarantee has been made in the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS

16 FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of 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 and the Group's management of capital.

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. Cash and cash equivalents of the Group are placed with financial institutions which are regulated.

At reporting date, the Group has a concentration of credit risk from 7 customers (2013: 6 customers) engaged in the Oil and Gas sector of approximately 45% (2013: 45%).

The carrying amount of the respective financial assets represents the maximum exposure to credit exposure. The maximum exposure to credit risk at the reporting date was:

		Group		Company	
	Note	2014	2013	2014	2013
		$'000	$'000	$'000	$'000
Loans and receivables	8	13,695	27,457	15,691	4,242
Cash and cash equivalents	9	49,894	3,504	32,168	–
		63,589	30,961	47,859	4,242

NOTES TO THE FINANCIAL STATEMENTS

16 FINANCIAL RISK MANAGEMENT (Cont'd)

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	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Singapore	7,244	18,196	15,691	4,242
Southeast Asia excluding Singapore	3,640	3,962	–	–
Australasia	663	5	–	–
Middle East	112	1,411	–	–
Europe and others	2,037	3,883	–	–
	13,695	27,457	15,691	4,242

The ageing of loans and receivables that were not impaired at the reporting date was:

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Not past due	6,846	13,064	15,691	4,242
Past due 0 – 30 days	1,950	6,068	–	–
Past due 31 – 120 days	1,346	5,690	–	–
More than 120 days	3,553	2,635	–	–
	13,695	27,457	15,691	4,242

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

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
At 1 January	6,212	11,623	–	–
Impairment loss recognised	3,748	422	–	–
Utilised	(4,464)	(5,834)	–	–
Translation differences	1	1	–	–
At 31 December	5,497	6,212	–	–

Based on historical default rates, the Group believes that no additional impairment allowance is necessary in respect of loans and receivables as at each reporting date. These loans and receivables mainly arise from customers that have a good payment record with the Group.

NOTES TO THE FINANCIAL STATEMENTS

16 FINANCIAL RISK MANAGEMENT (Cont'd)

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.

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 and trust receipts. 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 2014, included in total assets of the Group at the reporting date are net trade receivables totalling $10,665,000 (2013: $25,692,000). The liquidity of the Group is primarily dependent on the timely settlement of trade receivables. The Group carefully 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 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.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements or breaches of loan covenants:

		Cash flows			
	Carrying amount $'000	Contractual cash flows $'000	Within 1 year $'000	Within 1 to 5 years $'000	More than 5 years $'000
2014					
Term loans					
- Fixed rate	2,705	(2,856)	(1,388)	(1,468)	–
- Floating rate	3,562	(3,855)	(1,182)	(2,673)	–
Finance lease liabilities	1,860	(1,982)	(963)	(1,019)	–
Trade and other payables	17,814	(17,814)	(17,814)	–	–
	25,941	(26,507)	(21,347)	(5,160)	–
2013					
Term loans					
- Fixed rate	3,725	(3,924)	(2,060)	(1,864)	–
- Floating rate	816	(889)	(222)	(667)	–
Finance lease liabilities	3,642	(3,866)	(2,166)	(1,687)	(13)
Trade and other payables	17,149	(17,149)	(17,149)	–	–
	25,332	(25,828)	(21,597)	(4,218)	(13)

NOTES TO THE FINANCIAL STATEMENTS

16 FINANCIAL RISK MANAGEMENT (Cont'd)

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.

Foreign currency risk

The Group's exposure to market risk mainly relates to changes in foreign exchange rates on sales, cash and cash equivalents and purchases that are denominated in currencies other than the functional currencies of the respective entities within the Group. The currencies giving rise to this risk are primarily United States dollar and Australian dollar.

The Group's exposure to foreign currencies is as follows:

	Group	
	2014	**2013**
	$'000	**$'000**
United States dollar		
Trade and other receivables	8,094	23,511
Cash and cash equivalents	13,280	1,670
Trade and other payables	(4,351)	(558)
	17,023	24,623
Australian dollar		
Trade and other receivables	–	92
Trade and other payables	(27)	(28)
	(27)	64

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

NOTES TO THE FINANCIAL STATEMENTS

16 FINANCIAL RISK MANAGEMENT (Cont'd)

Sensitivity analysis

A 10% strengthening of the United States dollar and Australian dollar against the functional currencies of the respective entities within the Group at the reporting date would increase/(decrease) the profit before tax by the amounts shown 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 2013 and 2014, albeit that the reasonably possible foreign exchange rate variances may have been different.

	Group	
	2014	**2013**
	$'000	**$'000**
United States dollar	1,703	2,462
Australian dollar	(3)	6
	1,700	2,468

A 10% weakening of the US dollar and Australian dollar against the functional currencies of the respective entities within the Group would have the equal but opposite effect on the profit 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.

At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

	Group	
	2014	**2013**
	$'000	**$'000**
Fixed rate instruments		
Fixed rate loans	(2,705)	(3,725)
Finance lease liabilities	(1,860)	(3,642)
	(4,565)	(7,367)
Variable rate instruments		
Fixed deposits	26,193	1,169
Floating rate loans	(3,562)	(816)
	22,631	353

NOTES TO THE FINANCIAL STATEMENTS

16 FINANCIAL RISK MANAGEMENT (Cont'd)

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 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) profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013 and 2014.

	Group	
	2014	**2013**
	$'000	**$'000**
100 bp increase		
Variable rate instruments	2,263	35
100 bp decrease		
Variable rate instruments	(2,263)	(35)

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 non-current loans and borrowings, where interest rates reprices 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.

NOTES TO THE FINANCIAL STATEMENTS

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:

	Loans and receivables $'000	Other financial liabilities $'000	Other financial liabilities outside the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
Group					
2014					
Assets					
Loans and receivables	13,695	–	–	13,695	13,695
Cash and cash equivalents	49,894	–	–	49,894	49,894
	63,589	–	–	63,589	63,589
Liabilities					
Loans and borrowings	–	(6,267)	(1,860)	(8,127)	(7,803)
Trade and other payables	–	–	–	(17,814)	(17,814)
	–	(6,267)	(1,860)	(25,941)	(25,617)
2013					
Assets					
Loans and receivables	27,457	–	–	27,457	27,457
Cash and cash equivalents	3,504	–	–	3,504	3,504
	30,961	–	–	30,961	30,961
Liabilities					
Loans and borrowings	–	(4,541)	(3,642)	(8,183)	(7,857)
Trade and other payables	–	(17,149)	–	(17,149)	(17,149)
	–	(21,690)	(3,642)	(25,332)	(25,006)

Interest rates used in determining fair values

The interest rates used to discount estimated cash flows, where applicable, are as follows:

	Group 2014 %	Group 2013 %
Term loans	2.00 – 4.25	2.20 – 6.50
Finance lease liabilities	1.35 – 3.45	1.88 – 3.48

NOTES TO THE FINANCIAL STATEMENTS

16 FINANCIAL RISK MANAGEMENT (Cont'd)

Fair value hierarchy

The tables below analyse fair value measurements for financial assets and financial liabilities, by the levels in the fair value hierarchy based on the inputs to valuation techniques. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs other than quoted prices included within 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: unobservable inputs for the asset or liability.

Financial liabilities not carried at fair value but for which fair values are disclosed *

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Group				
31 December 2014				
Loans and borrowings	–	–	4,274	4,274
31 December 2013				
Loans and borrowings	–	–	3,991	3,991

* Excludes financial assets and liabilities whose carrying amounts, measured on the amortised cost basis, approximate their fair values due to their short-term nature and where the effect of discounting is immaterial.

17 REVENUE

	Group 2014 $'000	Group 2013 $'000
Offshore Rig Services and Supply Chain Management		
- Marine offshore support services rendered	26,236	30,044
- Chartering and towage income	22,344	17,312
- Freight services income	6	17
- Equipment rental income	6,398	9,199
- Sale of goods	14,348	27,280
Vessel Sales and Newbuild		
- Sale of goods	8,646	961
	77,978	84,813

NOTES TO THE FINANCIAL STATEMENTS

18 OTHER INCOME

	Group	
	2014	2013
	$'000	$'000
Gain/(loss) on disposal of property, plant and equipment	1,069	(238)
Interest income	297	3
Miscellaneous income	1,082	1,077
	2,448	842

19 FINANCE COSTS

	Group	
	2014	2013
	$'000	$'000
Interest paid and payable on:		
- Bank overdrafts and term loans	296	461
- Finance lease liabilities	126	227
- Trust receipts	–	34
	422	722

20 PROFIT BEFORE INCOME TAX

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

	Group	
	2014	2013
	$'000	$'000
Operating lease expenses	1,813	2,058
Operating lease income	(1,794)	(2,202)
Staff costs	10,716	10,807
Contributions to defined contribution plans included in staff costs	1,075	1,164
Impairment recognised in relation to trade receivables	3,748	422
Reversal of allowance for inventory obsolescence	(246)	(3,998)
Depreciation of property, plant and equipment	4,031	4,427
Audit fees paid/payable to auditors	300	583
Non-audit fees paid/payable to auditors	36	138
Directors' fees	265	40
Exchange (gain)/loss	(561)	102

NOTES TO THE FINANCIAL STATEMENTS

21 INCOME TAX EXPENSE

	Note	Group 2014 $'000	Group 2013 $'000
Current tax expense			
Current year		902	3,253
Over provided in prior years		(676)	–
		226	3,253
Deferred tax expense			
Movements in temporary differences		(29)	–
	14	(29)	–
		197	3,253

	Note	Group 2014 $'000	Group 2013 $'000
Reconciliation of effective rate			
Profit before income tax		5,814	20,346
Tax using the Singapore tax rate of 2014: 17% (2013: 17%)		988	3,459
Income not subject to tax		(128)	(253)
Non-deductible expenses		109	182
Utilisation of previously unrecognised deferred tax assets		–	(103)
Over provided in prior years		(676)	–
Others		(96)	(32)
		197	3,253

Income taxes

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.

NOTES TO THE FINANCIAL STATEMENTS

22 EARNINGS PER SHARE

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

	Group	
	2014	2013
	$'000	$'000
Profit for the year	5,617	17,093

The calculation of the basic and diluted earnings per share for each of the year ended 31 December 2013 and 2014 is based on the profit for the respective year and the weighted average number of shares of the Company of 700,794,521 (2013:550,000,000) shares.

There were no dilutive potential ordinary shares in existence for the year ended 31 December 2013 and 2014.

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

23 OPERATING SEGMENTS (Cont'd)

	Offshore Rig Services and Supply Chain Management $'000	Vessel Sales and Newbuild $'000	The Group $'000
2014			
Total revenue from external customers	69,332	8,646	77,978
Inter-segment revenue	4,031	–	4,031
Total segment revenue	73,363	8,646	82,009
Other income	2,448	–	2,448
Finance costs	(422)	–	(422)
Segment results	4,778	1,036	5,814
Tax expense			(197)
Profit for the year			5,617
Segment assets	130,046	–	130,046
Segment liabilities	31,994	–	31,994
Capital expenditure	13,417	–	13,417
Significant non-cash expenses			
- Depreciation	4,031	–	4,031
- Reversal of allowance for inventory obsolescence	(246)	–	(246)
- Impairment reversed in relation to trade and other receivables	3,748	–	3,748

NOTES TO THE FINANCIAL STATEMENTS

23 OPERATING SEGMENTS (Cont'd)

	Offshore Rig Services and Supply Chain Management $'000	Vessel Sales and Newbuild $'000	The Group $'000
2013			
Total revenue from external customers	83,852	961	84,813
Inter-segment revenue	4,166	–	4,166
Total segment revenue	88,018	961	88,979
Other income	969	–	969
Finance costs	(719)	(3)	(722)
Segment results	20,065	281	20,346
Tax expense			(3,253)
Profit for the year			17,093
Segment assets	91,997	–	91,997
Segment liabilities	34,497	–	34,497
Capital expenditure	9,389	–	9,389
Significant non-cash expenses			
- Depreciation	4,427	–	4,427
- Reversal of allowance for inventory obsolescence	(3,998)	–	(3,998)
- Impairment reversed in relation to trade and other receivables	422	–	422

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

	Group 2014 $'000	Group 2013 $'000
Revenues		
Total revenue for reportable segments	82,009	88,979
Elimination of inter-segment revenue	(4,031)	(4,166)
Consolidated revenue	77,978	84,813
Other material items		
Other income for reportable segments	2,448	969
Adjustments	–	(127)
Consolidated other income	2,448	842

NOTES TO THE FINANCIAL STATEMENTS

23 OPERATING SEGMENTS (Cont'd)

Geographical Information

The Group's operations are mainly in the region of Southeast Asia, Australasia (comprising mainly Australia and Marshall Islands), Middle East, Europe and North America. In presenting information on geographical segments, segment revenue are based on the delivery order address of customers. Segment assets, based on the geographical location of the assets, are all in Singapore.

	Group	
	2014	**2013**
	$'000	**$'000**
Revenues		
Australia	2,754	1,430
Indonesia	2,032	7,753
Malaysia	2,724	1,766
Portugal	794	536
Qatar	–	22
Singapore	45,629	50,241
United Arab Emirates	2,809	6,307
United States of America	10,843	5,478
Others	10,393	11,280
	77,978	84,813

	Singapore	**The Group**
	$'000	**$'000**
Non-current assets		
31 December 2014	63,295	63,295
31 December 2013	57,823	57,823

NOTES TO THE FINANCIAL STATEMENTS

24 DIVIDENDS

The Group declared and paid dividends as follows:

	Group	
	2014	2013
	$'000	$'000
Interim tax exempt one-tier dividend of $1.00 per ordinary share in respect of KHMO for financial year ended 31 December 2013	–	3,000
Final tax exempt one-tier dividend of $0.005 per ordinary share proposed in respect for financial year ended 31 December 2013 and paid in Financial Year 2014	3,550	–
	3,550	3,000

The Board recommended for the shareholders' approval at the Annual General Meeting of the Company an exempt (one-tier) final dividend of $3,550,000 (2013: $3,550,000) for the financial year ended 31 December 2014 of approximately $0.005 (2013: $0.005) per share based on the number of shares post the Company's initial public offering. The exempt (one-tier) final dividend has not been provided for in the financial statements.

25 COMMITMENTS

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

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Within 1 year	2,690	2,329	–	–
After 1 year but within 5 years	1,591	2,933	–	–
After 5 years	–	361	–	–
	4,281	5,623	–	–

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

(b) The Group entered into several contracts to purchase property, plant and equipment for $9,740,000 (2013: $3,027,000).

NOTES TO THE FINANCIAL STATEMENTS

26 CONTINGENT LIABILITIES

There were contingent liabilities in respect of the following:

(a) Immigration bond given to Ministry of Manpower by the one of the entities within the Group in respect of the employment of foreign workers amounting to $3,000,000 (2013: $5,000,000).

(b) Guarantees given to suppliers, customers, port authorities and immigration authorities by the one of the entities within the Group in respect of services rendered amounted to $1,100,000 (2013: $910,000).

27 RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Key management personnel compensation

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

The key management personnel compensation comprised:

	Group	
	2014	2013
	$'000	$'000
Short term employee benefits	3,664	3,099

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.

STATISTICS OF SHAREHOLDINGS
as at 20 March 2015

SHARE CAPITAL

Issued and fully paid-up capital	:	S$76,133,121.00
Total number of issued shares	:	710,000,000
No. of treasury shares	:	Nil
Class of shares	:	Ordinary Shares
Voting right	:	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	16	0.88	14,500	0.00
1,001 - 10,000	459	25.15	3,267,000	0.46
10,001 - 1,000,000	1,316	72.11	100,710,050	14.18
1,000,001 and above	34	1.86	606,008,450	85.36
Total	1,825	100.00	710,000,000	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**	**42.14**
2	CREDENCE CAPITAL FUND II (CAYMAN) LIMITED	**124,999,600**	**17.61**
3	RAFFLES NOMINEES (PTE) LTD	**38,378,000**	**5.41**
4	YARWOOD ENGINEERING & TRADING LIMITED	**22,916,850**	**3.23**
5	MAYBANK KIM ENG SECURITIES PTE LTD	**14,922,000**	**2.10**
6	TEO KOK KHENG	**12,857,000**	**1.81**
7	MAYBANK NOMINEES (S) PTE LTD	**10,000,000**	**1.41**
8	CITIBANK NOMINEES SINGAPORE PTE LTD	**9,046,400**	**1.27**
9	YEO KHEE SENG BENNY	**8,000,000**	**1.13**
10	DBS VICKERS SECURITIES (S) PTE LTD	**7,439,800**	**1.05**
11	DBS NOMINEES PTE LTD	**7,209,000**	**1.02**
12	OCBC SECURITIES PRIVATE LTD	**6,646,500**	**0.94**
13	UOB KAY HIAN PTE LTD	**3,558,000**	**0.50**
14	BNP PARIBAS NOMINEES SINGAPORE PTE LTD	**3,323,000**	**0.47**
15	LIM BONG GUAN	**3,181,000**	**0.45**
16	HONG LEONG FINANCE NOMINEES PTE LTD	**2,999,000**	**0.42**
17	PHILLIP SECURITIES PTE LTD	**2,922,300**	**0.41**
18	POH SAY SOON	**2,800,000**	**0.39**
19	KOH NUI HOON MRS LIM NUI HOON	**2,789,000**	**0.39**
20	NG THOR HUAT MOXHAM	**2,610,000**	**0.37**
Total		**585,797,450**	**82.52**

STATISTICS OF SHAREHOLDINGS

as at 20 March 2015

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

Name of Substantial Shareholders	No. of shares registered in the name of substantial shareholders 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	42.14
Tan Keng Siong Thomas	1,500,000	299,200,000(1)	300,700,000	42.35
Ng Chwee Lian Natalie Amanda	–	299,200,000(1)	299,200,000	42.14
Credence Capital Fund II (Cayman) Limited	124,999,600	–	124,999,600	17.61
Tan Chow Boon	–	124,999,600(2)	124,999,600	17.61
Seow Kiat Wang	–	124,999,600(2)	124,999,600	17.61
Koh Boon Hwee	–	124,999,600(2)	124,999,600	17.61
Credence Partners Pte. Ltd.	–	124,999,600(2)	124,999,600	17.61

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.

SHAREHOLDING HELD IN PUBLIC HANDS

Based on information available to the Company as at 20 March 2015, approximately 39.98% 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 Jurong Country Club, Ficus Rooms 2 & 3, Level 2, 9 Science Centre Road, Singapore 609078 on Wednesday, 29 April 2015 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 2014 and the Directors' Report and the Auditors' Report thereon. **(Resolution 1)**

2. To declare a one-tier tax exempt final dividend of 0.5 Singapore cents per ordinary share in respect of the financial year ended 31 December 2014. **(Resolution 2)**

3. To approve the payment of Directors' fees of S$265,000 for the financial year ended 31 December 2014. **(Resolution 3)**

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

   Mr Tan Chow Boon *[See Explanatory Note (i) below]* **(Resolution 4)**
   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)**

6. To transact any other ordinary business that may be properly transacted at an Annual General Meeting.

SPECIAL BUSINESS

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

7. **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,

NOTICE OF ANNUAL GENERAL MEETING

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) 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) 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) shall be based on the issued Shares (excluding treasury shares) 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 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 Articles of Association 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

8. **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) 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]

9. **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) 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]

By Order of the Board

Pan Mi Keay
Company Secretary
13 April 2015
Singapore

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

(i) Key information of Mr Tan Chow Boon can be found on page 13 of the Annual Report 2014. Please also refer to page 101 of the Annual Report 2014 for Mr Tan Chow Boon's shareholding interests in the Company.

(ii) Mr Ho Boon Chuan Wilson will, upon re-election as Director of the Company, remain as the Chairman of the Audit Committee as well as a Member of the Remuneration Committee and the Nominating Committee. 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 14 of the Annual Report 2014. There are no relationships (including family relationship) between Mr Ho Boon Chuan Wilson and the other Directors of the Company or its substantial shareholders.

(iii) The Ordinary Resolution 7 proposed in item 7 above, 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) 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) in the capital of the Company.

(iv) The Ordinary Resolution 8 proposed in item 8 above, 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) The Ordinary Resolution 9 proposed in item 9 above, 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.

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 corporation which is a member may appoint an authorised representative or representatives in accordance with Section 179 of the Companies Act, Cap. 50 of Singapore to attend and vote for and on behalf of such corporation.

(d) 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.

(e) 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.

(f) 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.

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

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 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.

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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 and, if necessary, to demand a poll, at the Annual General Meeting ("AGM") of the Company to be held at Jurong Country Club, Ficus Rooms 2 & 3, Level 2, 9 Science Centre Road, Singapore 609078 on Wednesday, 29 April 2015 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 2014 and the Directors' Report and the Auditors' Report thereon.		
2.	To declare a one-tier tax exempt final dividend of 0.5 Singapore cent per ordinary share in respect of the financial year ended 31 December 2014.		
3.	To approve the payment of Directors' fees of S$265,000 for the financial year ended 31 December 2014.		
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.		

Dated this __________ day of ________________, 2015

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.
3. 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. 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.
4. 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.
5. 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.
6. In the case of joint shareholders, all shareholders must sign the instrument appointing a proxy or proxies.
7. 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.
8. 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 48 hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.
9. 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 48 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 accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 13 April 2015.

Fold along this line

Affix Postage Stamp Here

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

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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