

REPORT ON CORPORATE GOVERNANCE

CH Offshore Ltd (“**CHO**” or “**the Company**”) and its subsidiaries (collectively, the “**Group**”) recognise the importance of, and is committed to, maintaining high standards of corporate governance to ensure greater transparency and maximize long-term shareholder value.

As the Company’s shares are listed on the Main Board of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”), the Company seeks to comply with the listing rules of the SGX-ST as prescribed in the Listing Manual of the SGX-ST (“**Listing Rules**”) and is guided in its corporate governance practices by the revised Code of Corporate Governance issued in 2012 (“**Code**”).

The Board of Directors (“**Board**”) is pleased to outline the main corporate governance framework and practices of the Company in this report, with specific reference made to each of the principles set out in the Code. This report describes the Company’s corporate governance practices that were in place throughout the financial period ended 31 December 2018. Other than deviations which are explained in this report, the Company has generally adhered to the principles and guidelines set out in the Code.

(A) BOARD MATTERS

The Board’s Conduct of 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 the Management to achieve this and the Management remains accountable to the Board.

The Board oversees the business affairs of the Group. It provides leadership and guidance to Management, sets strategic objectives, ensures that the necessary financial and human resources are in place, and reviews Management performance. The Board also ensures the adequacy of the Group’s control and risk framework and standards and ensures that obligations to its shareholders and other key stakeholders are understood and met.

The Board primary role is to protect and enhance long-term shareholders’ value. It is responsible for the Group’s overall performance objectives, key operational initiatives, financial plans and annual budget, major investments, divestments and funding proposals, quarterly and full year financial performance reviews, risk management and corporate governance practices. Each Director exercises his independent judgement to act in good faith and the best interest of the Company to enhance the long-term value of the Group to its shareholders. The Board also considers sustainability issues, e.g. environmental, governance and social factors in the formulation of Group’s strategies.

The Company has established financial authorisation and approval limits for borrowings, investments, acquisitions, disposals, capital and operating expenditures. Apart from its fiduciary duties and statutory responsibilities, the Board evaluates and approves important matters such as material acquisitions and disposal of assets, financial plans, capital expenditures, and major funding and investments proposals. It also reviews and approves the financial statements and annual reports and authorises announcements of financial results to be issued.

The Board is supported by the Board Committees established to assist the Board in discharging its responsibilities of overseeing the Group’s affairs and enhancing corporate governance. These Committees are the Audit Committee (“**AC**”), the Remuneration Committee (“**RC**”) and the Nominating Committee (“**NC**”). The Board delegates specific responsibilities to these Committees which operate within specified terms of reference setting out the scope of its duties and responsibilities and procedures governing the manner in which it is to operate and how decisions are to be taken. The Board accepts that while these Board committees have the authority to examine particular issues and will report back to the Board with their decisions and/or recommendations, the ultimate responsibility on all matters lies with the Board.

REPORT ON CORPORATE GOVERNANCE

The Board typically meets four times in a year and holds special meetings at such other times as may be necessary to address any ad hoc significant matters. Matters before the Board are diligently deliberated by the Board to ensure that the interests of the Company are protected. Meetings via telephone or videoconference are permitted under the Company's Constitution. In between Board meetings, important matters are discussed in person or via telephone and are tabled for Board decision via circulating resolutions in writing. Supporting memorandum or papers are circulated to the Directors where relevant.

Attendance at Board/Board Committee Meetings during the financial period ended 31 December 2018⁽¹⁾

Directors	Board		AC		RC		NC	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Mr Thia Peng Heok George	2	2	2	2	1	1	1	1
Dr Benety Chang ⁽²⁾	1	1	1*	1*	–	–	–	–
Ms Jeanette Chang	1	1	1*	1*	–	–	–	–
Mr Heath McIntyre	1	1	1*	1*	–	–	–	–
Mr Tan Kiang Kherng	1	1	1*	1*	–	–	–	–
Mr Tan Pong Tyea ⁽³⁾	2	1	–	–	–	–	1	1
Mr Tan Kian Huay	2	2	1	1	1	1	1	1
Mr Wan Hin Weng ⁽⁴⁾	1	1	1	1	–	–	–	–
Ms Tan Sooh Whye ⁽⁵⁾	1	1	1	1	1	1	–	–
Mr James William Noe ⁽⁶⁾	1	1	–	–	–	–	–	–
Mr Zhang Haibo ⁽⁷⁾	1	–	–	–	–	–	–	–

Notes:

- (1) Refers to meetings held/attended while each Director was in office.
 - (2) Dr Benety Chang was appointed as member of NC on 8 October 2018.
 - (3) Mr Tan Pong Tyea resigned as NC Member on 8 October 2018.
 - (4) Mr Wan Hin Weng was appointed as member of AC & RC on 3 October 2018.
 - (5) Ms Tan Sooh Whye retired as director after the conclusion of last Annual General Meeting held on 21 September 2018.
 - (6) Mr James William Noe resigned as director on 31 August 2018.
 - (7) All the board meetings were attended by SZ Offshore Investment Pte. Ltd.'s representative(s) as a result of Mr Zhang Haibo's conflicting schedule. Mr Zhang Haibo was a nominee director appointed by SZ Offshore Investment Pte. Ltd.. Mr Zhang Haibo resigned as director on 24 August 2018.
- * Attended as invitees.

The Company recognises the importance of appropriate training for its Directors. Newly-appointed Directors will be given briefings and orientation on the business activities of the Group and its strategic directions, their duties and responsibilities as Directors, as well as a board meeting calendar for the year. In this regard, the Company does not provide a formal letter to Directors outlining their duties and obligations. As part of training for the Board, Directors are briefed either during Board and Board Committee meetings or at specially convened sessions on changes to regulations and accounting standards, as well as industry related matters. Where appropriate, Directors are sent for conferences and seminars in relevant fields. Articles and reports relevant to the Group's business are also circulated to the Directors for information. Directors with no prior experience as a director of a listed company will be encouraged to attend the listed company Director Programme conducted by the Singapore Institute of Directors.

REPORT ON CORPORATE GOVERNANCE

Board Composition and Guidance

Principle 2:

There should be a strong and independent element on the Board, which is able to exercise objective judgment 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 has 8 Directors comprising 3 Independent Directors, 3 Non-Executive Directors and 2 Executive Directors. The Directors of the Company as at the date of this report are as follows:

Mr Thia Peng Heok George	Non-Executive Independent Director (Chairman)
Dr. Benety Chang***	CEO & Executive Director
Mr. Heath McIntyre**	Executive Director
Ms. Jeanette Chang*	Non-Executive Director
Mr. Tan Kiang Kherng*	Non-Executive Director
Mr Tan Pong Tyea	Non-Executive Director
Mr Tan Kian Huay	Non-Executive Independent Director
Mr Wan Hin Weng#	Non-Executive Independent Director

*** Appointed as Non-Executive Director on 27 August 2018 and subsequently redesignated to CEO/Executive Director on 1 September 2018

** Appointed as Non-Executive Director on 27 August 2018 and subsequently redesignated to Executive Director on 1 September 2018

* Appointed on 27 August 2018

Appointed on 3 October 2018

With more than one-third of the Board comprising of Independent Directors, the Group is in compliance with the Guideline 2.1 of the Code where at least one-third of the Board has to be independent.

A Director who has no relationship with the Group, its related corporations, officers or its shareholders with shareholdings of 10% or more in the voting shares of the Company that could interfere, or be reasonably perceived to interfere, with the exercise of his independent business judgment with a view to the best interests of the Company, is considered to be independent.

The NC reviews the independence of each Director on an annual basis, and as and when circumstances require, based on the Code's definition of what constitutes an Independent Director. The NC has determined that all the 3 Independent Directors are independent, including independent from the 10% shareholders of the Company.

None of the Independent Directors have served on the Board beyond 9 years from the date of first appointment.

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.

Different individuals assume the Chairman and the Chief Executive Officer ("CEO") functions in CHO. There is a clear separation of the roles and responsibilities between the Chairman and the CEO. The Chairman's responsibilities include chairing the Board meetings and guiding the Board on its discussion on significant issues. The CEO is responsible for the day-to-day management of the business and the overall performance of the Group. The Chairman and the CEO are not related.

REPORT ON CORPORATE GOVERNANCE

Board Membership

Principle 4:

There should be a formal and transparent process for the appointment and re-appointment of Directors to the Board.

As at the date of this report, the NC is chaired by Mr Tan Kian Huay with Dr Benety Chang and Mr Thia Peng Heok George as members. The majority of the NC members, including the Chairman are Independent Directors.

The NC has put in place a formal and transparent process for all appointments to the Board. It has adopted written terms of reference defining its membership, administration and duties.

The NC's primary functions are to evaluate and to review nominations for appointment and re-appointment to the Board and the various committees, to assess the effectiveness of the Board, to nominate any Directors for re-election at the AGM, having regards to the Director's contribution and performance (such as attendance, preparedness, participation and candor), to determine whether or not the Director is independent, to review Board succession plan for Directors and to review the training and professional development programs for the Board.

The NC reviews annually the balance and diversity of skills, experience, gender and knowledge required by the Board and the size of the Board which would facilitate decision making. Thereafter, in consultation with the Board, the NC assesses if there is any inadequate representation in respect of any of those attributes and if so, determines the role and the desirable competencies for a particular appointment.

In the event that the appointment of a new Director is required, the NC will seek to identify the competence required for the Board to fulfil its responsibilities and may engage recruitment consultants or other independent experts to undertake research on, or assess potential candidates for new positions on the Board. The NC then meets with the shortlisted potential candidates with the appropriate profile to assess suitability and to ensure that the candidates are aware of the expectation and the level of commitment required, before nominating the most suitable candidate to the Board for appointment as Director.

The NC is satisfied that the Board and the Board committees comprised Directors who as a group provide an appropriate balance and diversity of skills, experience, gender, knowledge of the Group, core competencies such as accounting or finance, business or management experience, human resource, risk management, mergers and acquisitions, industry knowledge and strategic planning experience, required for the Board and the Board Committees to be effective. The NC and the Board are of the opinion that given the scope and nature of the Group's operations, the current size of the Board is appropriate in facilitating effective decision making.

The NC also determines annually whether a Director with multiple Board representations and other principle commitments is able to and has adequately discharge his duties as a Director of the Company.

The NC is of the view that, setting a maximum number of listed company Board representations a Director should have is not meaningful, as the contribution of each Director would depend on their individual circumstances, including whether they have a full time vocation or other responsibilities. The Board shares this view.

Notwithstanding the number of listed company Board representations and other principal commitments which the Directors held, the NC was of the view that they have been able to devote sufficient time and attention to the affairs of the Company and they are able to fulfill their duties as Directors of the Company. There is no alternate Director on the Board.

The NC has reviewed the independence of the Directors as mentioned under Guideline 2.3 of the Code. The NC has affirmed that Mr Thia Peng Heok George, Mr Wan Hin Weng and Mr Tan Kian Huay are independent and free from any relationship outlined in the Code. Each of the Independent Directors has also confirmed his independence.

REPORT ON CORPORATE GOVERNANCE

At each AGM of the Company, not less than one third of the Directors for the time being (being those who have been longest in office since their last re-election) are required to retire from office by rotation. A retiring Director is eligible for re-election by the shareholders of the Company at the AGM. Also, all newly appointed Directors during the year will hold office only until the next AGM and will be eligible for re-election.

The NC, with each NC member abstaining in respect of his own re-election, has recommended to the Board the nomination of Directors retiring under Article 88 & 89 of the Company's Constitution, namely Mr Tan Kian Huay, Mr Wan Hin Weng and Mr Tan Pong Tyea for re-election at the forthcoming AGM of the Company. The Board has accepted the recommendations of the NC, and accordingly, Mr Tan Kian Huay, Mr Wan Hin Weng and Mr Tan Pong Tyea will be offering themselves for re-election.

Board Performance

Principle 5:

There should be a formal assessment of the effectiveness of the Board as a whole and its Board committees and the contribution of each Director to the effectiveness of the Board.

The Board believes that Board performance is ultimately reflected in the long-term performance of the Group. The Board has implemented a process carried out by the NC, for assessing the effectiveness of the Board as a whole, effectiveness of its Board Committees and the contribution by each individual Director to the effectiveness of the Board on an annual basis. The performance evaluation process covers a range of issues including size and composition of the Board and Board Committees, information management, decision-making, processes, risk and crisis management, communication with Senior Management and stakeholder management. The evaluation and feedback are then consolidated and presented to the Board for discussion on strengths and weaknesses to improve the effectiveness of the Board and its Committees.

A formal assessment of the effectiveness of the Board as a whole has been undertaken by the NC for FY Dec 2018. The NC is of the view that the performance of the Board as a whole has been satisfactory.

Access to Information

Principle 6:

Board members should be provided with complete, adequate and timely information.

Directors are from time to time furnished with detailed information concerning the Group to enable them to be fully cognizant of the decisions and actions of the Group's executive management. All Directors have unrestricted access to the Company's records and information to enable them to constantly keep track of the Group's financial position. Detailed Board papers are prepared for each meeting of the Board and are normally circulated before each meeting. The Board papers include sufficient information from the management on financial, business and corporate issues to enable the Directors to be properly briefed on issues to be considered at Board meetings.

If a Director is unable to attend a Board or Board Committee meeting, he would still receive all the papers and materials for discussion at that meeting. He would review them and advise the Chairman or Board Committee Chairman of his views and comments (if any) on the matters to be discussed so that they may be conveyed to other members at the meeting.

All Directors have separate and independent access to all levels of senior executives in the Group and the Company Secretary, and are encouraged to speak to other employees to seek additional information if they so require.

Company Secretary attends all Board meetings and is responsible for ensuring that established procedures and all relevant statutes and regulations which are applicable to the Company are complied with. The appointment and the removal of the Company Secretary rest with the Board as a whole.

Each Director has the right to seek independent legal and other professional advice, at the Company's expense, concerning any aspect of the Group's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

REPORT ON CORPORATE GOVERNANCE

(B) 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.

As at the date of this report, the RC is chaired by Mr Wan Hin Weng with Mr Thia Peng Heok George, Mr Tan Kian Huay and Ms Jeanette Chang as members, all of whom are Non-Executive Directors and the majority of whom, including the Chairman, are Independent Directors.

The RC has adopted written terms of reference defining its membership, administration and duties.

The primary functions of the RC are to review and recommend to the Board a framework of remuneration for the Directors, CEO and Key Management Personnel, including but not limited to Director's fees, salaries, allowances, bonuses, options and benefits in kind, to perform annual review of the remuneration of employees related to the Directors and substantial shareholders (if any) and to implement and administer the CH Offshore Employee Option Scheme.

In discharging its functions, the RC may, at the Company's expense, obtain such independent legal and other professional advice as it deems necessary.

No member of the RC is involved in deliberating in respect of any remuneration, compensation or any form of benefits to be granted to him/her.

The recommendations of the RC have been submitted for endorsement by the entire Board of Directors.

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.

In setting remuneration packages, the Company takes into account pay and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of individual Directors.

The RC has adopted a Director's fee framework in which the Independent Directors will receive Directors' fees in accordance with their contributions, taking into account factor such as effort and time spent, responsibilities of the Independent Directors and the need to pay competitive fees to attract, retain and motivate the Independent Directors. The Independent Directors' fees comprise a basic fee and additional fees for appointment as Chairman of the respective Board Committees as per the table below.

Basic Fee for Independent Director is \$40,000 per annum

Audit Committee Chairman	50% of Basic Fee
Remuneration/Nominating Committee Chairman	25% of Basic Fee

REPORT ON CORPORATE GOVERNANCE

The Independent Directors are not compensated to the extent that their independence may be compromised.

The RC and the Board has proposed for FY2019 Director's Fee to be paid quarterly in arrear for shareholders' approval at the forthcoming AGM.

Directors' fee are recommended by the Board for the approval of the shareholders at the Company's AGM.

The Executive Directors do not receive Directors' fees. The remuneration for the Executive Directors and Key Management Personnel comprises a basic salary, a benefit component and a variable performance related bonus, which is designed to align the interests of the Executive Directors and Key Management Personnel with those of shareholders and promote the long-term success of the Group.

The RC reviews the remuneration of Directors and Key Management Personnel on an annual basis to ensure that it commensurate with their performance, giving due regard to the financial and commercial health and business needs of the Company. Their performance is reviewed periodically by the RC and the Board.

The Company has noted that the Code has recommended the incorporation of appropriate "claw-back mechanisms" to allow the Company to reclaim the variable incentive-based component of remuneration from Directors and Key Management Personnel. There are, at present, no provisions allowing the Company to reclaim incentive components of remuneration from Executive Directors and Key Management Personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. The Company should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties.

CHO Employee Share Option Scheme

The scheme was implemented on 27 May 2016 as an incentive plan for employees of the Group based on individual performance. Details of the Scheme are disclosed under the Directors' Statement set out in pages 58 to 60 of this Annual Report.

REPORT ON CORPORATE GOVERNANCE

Disclosure on Remuneration

Principle 9:

Each company should provide clear disclosure of its remuneration policy, 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.

The Directors' remuneration disclosed below is shown in bands of S\$250,000.

REMUNERATION PAID OR ACCRUED TO DIRECTORS FOR FINANCIAL PERIOD ENDED 31 DECEMBER 2018

Directors of Company	Fixed Component (%) ⁽¹⁾	Variable Component (%) ⁽²⁾	Benefits (%) ⁽³⁾	Directors' Fees (%)	Total Compensation (%)
Below S\$250,000					
Mr Thia Peng Heok George	–	–	–	100%	100%
Dr. Benety Chang ⁽⁴⁾	–	–	–	–	–
Mr Tan Kian Huay	–	–	–	100%	100%
Ms Tan Sooh Whye ⁽⁵⁾	–	–	–	–	–
Ms. Jeanette Chang ⁽⁴⁾	–	–	–	–	–
Mr. Heath McIntyre ⁽⁴⁾	–	–	–	–	–
Mr Tan Kiang Kherng ⁽⁴⁾	–	–	–	–	–
Mr Tan Pong Tyea	100%	–	–	–	100%
Mr Wan Hin Weng ⁽⁶⁾	–	–	–	100%	100%
Mr Zhang Haibo ⁽⁸⁾	–	–	–	–	–
Mr James William Noe ⁽⁷⁾	82%	–	18%	–	100%

Notes:

- (1) Fixed component refers to base salary earned, including AWS and employer CPF.
- (2) Variable component refers to variable bonus.
- (3) Benefits refer to car expense reimbursements, expatriate benefits and accrued leave.
- (4) Appointed on 27 August 2018.
- (5) Resigned on 21 September 2018.
- (6) Appointed on 3 October 2018.
- (7) Resigned on 31 August 2018.
- (8) Resigned on 24 August 2018.

The remuneration of each individual Director and Key Management Personnel (who are not also Directors of the Company) is not disclosed in dollar terms as remuneration is a commercially sensitive matter, given that the Company operates in a highly competitive environment where potential poaching of employees by competitors is fairly common.

REPORT ON CORPORATE GOVERNANCE

REMUNERATION PAID OR ACCRUED TO THE TOP FOUR KEY MANAGEMENT PERSONNEL FOR FINANCIAL PERIOD ENDED 31 DECEMBER 2018

Key Management Personnel of Company	Fixed Component (%) ⁽¹⁾	Variable Component (AWS) (%) ⁽²⁾	Benefits (%) ⁽³⁾	Total Compensation (%)
Below S\$250,000				
Mr Victor Gordon Pinto ⁽⁵⁾	100%	—	—	100%
Mr Lim Tze Kern Kenny	100%	—	—	100%
Ms Wong Soo Pin Evelyn	100%	—	—	100%
Mr Tan Jit Sin Derek ⁽⁴⁾	99%	—	1%	100%

Notes:

- (1) Fixed component refers to base salary earned, including allowance, AWS and employer CPF.
(2) Variable component refers to variable bonus.
(3) Benefits refer to paid annual leave.
(4) Resigned on 30 November 2018.
(5) Joined on 8 October 2018.

As at the date of this Corporate Governance Report, there are 3 key management personnel in the Company.

There were no termination, retirement and post-employment benefits granted to any Director, the CEO and key management personnel for the financial period ended 31 December 2018.

The Group does not have any employee who is an immediate family member of a Director or the CEO and whose remuneration exceeds S\$50,000 for the period ended 31 December 2018.

(C) ACCOUNTABILITY AND AUDIT

Accountability

Principle 10:

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

As stated above, the Board's primary role is to protect and enhance long-term value and returns for the shareholders. In the discharge of its duties to the shareholders, the Board, when presenting annual financial statements and quarterly results announcements, seeks to provide the shareholders with a detailed analysis, explanation and assessment of the Group's financial position and prospects.

In preparing the financial statements, the Directors have:

- (i) Selected suitable accounting policies and applied them consistently;
- (ii) Made judgments and estimates that are reasonable and prudent;
- (iii) Ensured that all applicable accounting standards have been followed; and
- (iv) Prepared financial statements on the basis that the Directors have reasonable expectations, having made enquires, that the Group and Company have adequate resources to continue operations for the foreseeable future.

REPORT ON CORPORATE GOVERNANCE

The Management provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a regular basis.

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 group'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 has overall responsibility for the governance of the Group's risk management and internal controls. The Board and Management of the Company are fully committed to maintaining sound risk management and internal control systems to safeguard shareholders' interests and the Group's assets.

The Board determines the Company's levels of risk tolerance and risk policies, and oversees Management in the design, implementation and monitoring of the risk management and internal control systems.

The Board has set up a Risk Management Committee to assist the Board in overseeing risk management for the Group.

The Board has implemented an Enterprise Risk Management Framework for the identification, assessment, monitoring and reporting of significant risks. The Company maintains a risk register which identifies the material risks facing the Group and the internal controls in place to manage or mitigate those risks. The Risk Management Committee reviews and updates the risk register regularly and updates the Board.

The work of the internal auditors and the report of the external auditors, have enabled the identification of key risks which are reported to the AC to facilitate the Board's oversight of the effectiveness of risk management and the adequacy of mitigating measures taken by management to address the underlying risks. The internal audits are conducted to assess the adequacy and effectiveness of the Group's system of internal controls in addressing financial, operational, information technology and compliance risks. In addition, material control weaknesses over financial reporting, if any, are highlighted by the external auditors in the course of the statutory audit.

All audit findings and recommendations made by the internal and external auditors are reported to the AC and significant findings are discussed at the AC meetings. Management follows up on all recommendations to ensure timely remediation of audit issues and reports the status to the AC.

The Board has received written assurance from the CEO and the CFO that:

- (a) The financial records of the Group have been properly maintained and the financial statements for the period ended 31 December 2018 give a true and fair view of the Group's operations and finances; and
- (b) The system of risk management and internal controls in place within the Group is adequate and effective in addressing the material risks in the Group in its current business environment including material financial, operational, compliance and information technology risks.

Based on the risk management and internal controls established and maintained by the Group, work performed by the internal and external auditors, and reviews performed by Management and the Board Committees as well as the written assurance received from the CEO and the CFO, the Board, with the concurrence of the AC, is of the opinion that the Group's internal controls were adequate and effective as at 31 December 2018 to address financial, operational, compliance and information technology risks, which the Group considers relevant and material to its operations.

REPORT ON CORPORATE GOVERNANCE

The Board notes that the system of risk management and internal controls established by the Group provides reasonable, but not absolute, assurance that the Group will not be adversely affected by any event that can be reasonably foreseen as it strives to achieve its business objectives. In this regard, the Board also notes that no system of risk management and internal controls can provide absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

Audit Committee

Principle 12:

The Board should establish an audit committee with written terms of reference which clearly set out its authority and duties.

As at the date of this report, the AC is chaired by Mr Thia Peng Heok George with Mr Tan Kian Huay and Mr Wan Hin Weng as members, all of whom are Independent Directors, including the Chairman.

Mr Thia Peng Heok George is a Certified Public Accountant and practised as an accountant with more than 20 years' experience in merchant banking and financial services. The Board is of the view that the members of the AC have recent and relevant accounting or related financial management expertise or experience to discharge the AC's functions.

The primary functions of the AC are:

- (a) Review with the external auditors the audit plan including the nature and scope of the audit before its commencement, their annual reports and their Management letters and Management's response;
- (b) Review significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance. This includes review of quarterly, half-year and annual financial statements before submission to the Board for its approval;
- (c) Review the assistance given by Management to the external auditors;
- (d) Review the independence and objectivity of the external auditors;
- (e) Review the nature and extent of non-audit services performed by the external auditors;
- (f) Examine the scope of internal audit procedures and the results of the internal audit;
- (g) Review the adequacy of the Company's internal controls, including financial, operational, compliance and information technology controls, and reporting on any pertinent aspects of risks thereto, and ensure that a review of the effectiveness of the Company's internal controls is conducted at least annually and such a review can be carried out by the internal and/or external auditors;
- (h) Meet with the external and internal auditors without the presence of Management at least annually;
- (i) Review the effectiveness of the Company's internal audit function and ensure that it is adequately resourced and has appropriate standing within the Company;
- (j) Investigate any matter which falls within the AC's terms of reference, having full access to and co-operation by Management and the full discretion to invite any Director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly;
- (k) Review interested persons' transactions falling within the scope of Chapter 9 of the Listing Manual of the SGX-ST;

REPORT ON CORPORATE GOVERNANCE

- (l) Make recommendations to the Board on the appointment/re-appointment/removal of the external auditor, and approve the audit fees and terms of engagement of the external auditors; and
- (m) Review arrangement by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, so as to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow up action.

Apart from the duties listed above the AC may commission and review the findings of internal investigations into matters where there is suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore or other applicable law, rule or regulation, which has or is likely to have material impact on the Company's or Group's operating results and/or financial position.

The AC has been given full access to and has obtained the co-operation of the Management. The AC has reasonable resources to enable it to discharge its functions properly.

The AC met twice during the period under review. The AC meets annually with the external and internal auditors separately, without the presence of the Management. These meetings enable the external auditors and internal auditors to raise issues encountered in the course of their work directly to the AC.

The AC has undertaken a review of all the non-audit services provided by the external auditors during the period under review and is satisfied that such services would not, in the AC's opinion, affect the independence and objectivity of the external auditors. During the period under review, the aggregate amount of fees paid to the external auditors, Ernst & Young LLP ("EY"), amounted to S\$75,000, with the fees paid for its provision of audit and non-audit services amounting to S\$45,000 and S\$30,000 respectively.

EY is an audit firm registered with the Singapore Accounting and Corporate Regulatory Authority. Both the AC and Board have reviewed the appointment of different auditors for its subsidiaries and significant associated companies and are satisfied that the appointment of different auditors would not compromise the standard and effectiveness of the audit of the Company. Accordingly, the Company has complied with Listing Rule 716.

Changes to accounting standards and accounting issues which have a direct impact on the financial statements were reported to the AC, and highlighted by the external auditors in their meetings with the AC.

None of the members nor the Chairman of the AC are former partners or Directors of the Group's auditing firm.

Each member of the AC abstains from voting on any resolutions and making any recommendation and/or participating in discussion on matters in which he is interested.

Whistleblowing Policy

The Company has implemented a whistleblowing policy, which serves to encourage and provide a channel to employees to report in good faith and in confidence, without fear of reprisals, concerns about possible wrongdoing or breach of applicable laws, regulations, policies or other matters. The objective for such arrangement is to ensure independent investigation of such matters and for appropriate follow-up action.

REPORT ON CORPORATE GOVERNANCE

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 internal audit function is outsourced to MS Risk Management Pte Ltd, an associate of international public accounting firm, Messrs Moore Stephens LLP. The internal auditors will report to the Chairman of the AC on any material weaknesses and risks identified in the course of the internal audit, which will also be communicated to Management. Management will accordingly update the AC on the status of the remedial action plans.

The internal auditors meet the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors. The AC has reviewed the adequacy of the internal audit function and is satisfied that the Company's internal audit function is staffed by qualified and experienced personnel.

The AC ensures that the Management provides good support to the internal auditors and provides adequate access to documents, records, properties and personnel when requested in order for the internal auditors to carry out its function accordingly. The internal auditors also has unrestricted access to the AC on internal audit matters.

(D) SHAREHOLDERS RIGHTS AND COMMUNICATION WITH SHAREHOLDERS

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.

The Company is committed to treat all shareholders fairly and equitably to facilitate the exercise of their ownership rights by providing them with adequate, timely and sufficient information pertaining to the changes of Group's business which could have a material impact on the Company's share price.

Shareholders are informed of shareholders' meetings through notices published in the newspapers and reports or circulars sent to all shareholders. Each item of special business included in the notice of meeting is accompanied, where appropriate, by an explanation for the proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting.

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.

The Company communicates information to shareholders and the investing community through announcements that are released to the SGX-ST via SGXNET. Such announcements include the quarterly and full-year results, material transactions, and other developments relating to the Group requiring disclosure under the corporate disclosure policy of the SGX-ST.

All shareholders of the Company are sent a copy of the Annual Report and notice of the AGM. The notice of AGM, which sets out all items of business to be transacted at the AGM, is also advertised in the newspapers.

In addition to the above, the shareholders can access the Company's corporate website (<http://www.choffshore.com.sg/>) at their convenience to receive updates. The Company's corporate website also provides information about the Company, its services and its Directors. In the investor relation section of the corporate website, the Company maintains announcements and financial results released on SGXNet as well as annual reports of the Company.

REPORT ON CORPORATE GOVERNANCE

The Company does not practice selective disclosure. In line with continuing disclosure obligations of the Company pursuant to the Listing Rules and the Companies Act (Chapter 50) of Singapore ("Act"), the Board's policy is that all shareholders should be equally and timely informed of all major developments that impact the Group through SGXNet. Shareholders can submit their feedback and raise any question to the Company's investor relations, contact as provided in the Company's corporate website.

The Group believes in encouraging shareholders' participation at general meetings. A shareholder who is entitled to attend and vote may either vote in person or in absentia through the appointment of one or more proxies (who can either be named individuals nominated by the shareholder to attend the meeting or the Chairman of the meeting as the shareholder may select). The Company's Constitution allow a shareholder of the Company to appoint up to two proxies to attend and vote in place of the shareholder. On 3 January 2016, the legislation was amended, among other things to allow certain members, defined as "relevant intermediary" to attend and participate in general meetings without being constrained by the two-proxy requirement. Relevant intermediary includes corporation holdings licenses in providing nominee and custodial services and CPF Board which purchases shares on behalf of CPF investors. Allowing multiple proxies for such members will facilitate indirect investors attending and voting at shareholder meetings and encourages more active shareholder participation. Voting in absentia by mail, facsimile or email is currently not permitted to ensure proper authentication of the identity of shareholders and their voting intent.

The Board ensures that there are separate resolutions at general meetings of the Company. The external auditors are also present to address shareholders' queries on the conduct of audit and the preparation and content of the auditors' report.

The Chairman of each of the AC, RC and NC, or members of the respective Committees standing in for them, are present at each AGM, and other general meetings held by the Company, if any, to address shareholders' queries. Senior Management is also present at general meetings to respond, if necessary, to operational questions from shareholders that may be raised.

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 Company's main forum for dialogue and interaction with shareholders takes place at its AGM, where the members of the Board, Senior Management and the external auditors are in attendance. At the AGM, shareholders are given the opportunity to air their views and ask questions regarding the Company.

To have greater transparency in the voting process, the Company has adopted the voting of all its resolutions by poll at its general meetings. The detailed voting results of each of the resolutions tabled will be announced immediately at the meeting. The total numbers of votes cast for or against the resolutions will be also announced after the meeting via SGXNet.

The Company Secretary prepares minutes of general meetings that include substantial and relevant comments or queries from Shareholders relating to the agenda of the meeting, and responses from the Board and Management, and such minutes are available to shareholders upon their request.

(E) DEALING IN SECURITIES

The Company has clear guidelines for dealings in securities by Directors and employees. CHO's Directors and employees are prohibited from dealing in CHO's shares for the period of two weeks prior to the announcement of quarterly results and a period of one month prior to the announcement of year-end results. In addition, Directors and executives are also expected to observe insider trading laws at all times even when dealing in securities within permitted trading periods. Employees who attend management committee meetings have to observe the "closed window" periods.

REPORT ON CORPORATE GOVERNANCE

(F) MATERIAL CONTRACTS

There were no material contracts of the Company or its subsidiaries involving the interests of the CEO, Directors or controlling shareholders during the financial period ended 31 December 2018.

(G) INTERESTED PERSON TRANSACTIONS

The Company has put in place an internal procedure to track interested person transactions ("IPTs") of the Company. The Finance Department is in charge of maintaining a register of the Company's IPTs in accordance with the reporting requirements stipulated in Chapter 9 of the SGX-ST Listing Manual. All IPTs are disclosed in the Company's Annual Report.

The aggregate value of interested person transactions entered into under review is as follows:

<u>Interested Person Transactions</u>	<u>Aggregate value of all IPTs during the financial period under review (excluding transactions less than S\$100,000)</u>
	<u>US\$'000</u>
Falcon Energy Group of Companies ⁽¹⁾	390

Note:

(1) Mr Tan Pong Tyea is a Non-Executive Director and significant shareholder of the Company as of the date of this report. He has a direct interest of 47.68% and deemed interest of 10.08% in the issued shares in Falcon Energy Group Limited.

The Company did not have a shareholders' mandate pursuant to Rule 920 of the SGX-ST Listing Manual during the financial period ended 31 December 2018. At the forthcoming AGM, the Company will seek shareholders' approval for the Company, its subsidiaries and associated companies to enter into transactions falling within the categories of interested person transactions described in the Company's circular to shareholders dated 12 March 2019 with any party who is of the class or classes of interested persons described in the said circular, provided that such transactions are entered into in accordance with the review procedures set out in the said circular.

CONCLUSION

The Company recognises the importance of good corporate governance practices for maintaining and promoting investor confidence. The Company will continue to review and improve its corporate governance practices on an ongoing basis.

REPORT ON CORPORATE GOVERNANCE

DISCLOSURE ON COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

Guideline	Questions	How has the Company complied?
General	<p>(a) Has the Company complied with all the principles and guidelines of the Code? If not, please state the specific deviations and the alternative corporate governance practices adopted by the Company in lieu of the recommendations in the Code.</p> <p>(b) In what respect do these alternative corporate governance practices achieve the objectives of the principles and conform to the guidelines in the Code?</p>	<p>(a) The Company has complied with all the principles and guidelines of the Code, save for the following:</p> <p>(i) <u>Number of Board Representation</u></p> <p>The NC and the Board have not made a determination of the maximum number of Board representation a Director may hold.</p> <p>(ii) <u>Disclosure of the remuneration of Directors and key management personnel</u></p> <p>The remuneration of the top 4 key executives in the Group who are not Directors of the Company is shown in bands of S\$250,000. Due to the sensitivity and confidentiality of remuneration matters, the Board is of the view that it is in the best interests of the Company not to disclose the remuneration of each individual Director and key management personnel in dollar terms.</p> <p>(b) The alternative practices adopted by the Company are as follows:</p> <p>(i) <u>Number of Board Representation</u></p> <p>The NC and the Board are of the view that setting a maximum number of listed company Board representations a Director should have is not meaningful, as the contribution of each Director would depend on their individual circumstances, including whether they have a full time vocation or other responsibilities. Notwithstanding the number of listed company Board representations and other principal commitments which the Directors held, the NC was of the view that they were able to devote sufficient time and attention to the affairs of the Company.</p> <p>(ii) <u>Disclosure of the remuneration of Directors and key management personnel</u></p> <p>The RC reviews and recommends the remuneration packages for the Directors and key management personnel. It is to ensure that the remuneration structure is competitive and sufficient to attract, retain and motivate Directors and key management personnel to run the Company successfully in order to maximize shareholders' value. The members of the RC do not participate in any decisions concerning their own remuneration.</p>

REPORT ON CORPORATE GOVERNANCE

Guideline	Questions	How has the Company complied?
Board Responsibility		
GUIDELINE 1.5	What are the types of material transactions which require approval from the Board?	Please refer to Principle 1 of the Corporate Governance Report.
Members of the Board		
GUIDELINE 2.6	<p>(a) What is the Board's policy with regard to diversity in identifying Director nominees?</p> <p>(b) Please state whether the current composition of the Board provides diversity on each of the following – skills, experience, gender and knowledge of the Company, and elaborate with numerical data where appropriate.</p> <p>(c) What steps has the Board taken to achieve the balance and diversity necessary to maximize its effectiveness?</p>	<p>(a) The Board believes in having an appropriate balance and diversity of skills, experience, gender and knowledge.</p> <p>(b) The Board consists of 8 members (7 male and 1 female), 3 of whom are Independent Directors. Members of the Board are professionals from diverse backgrounds with varied experience from accounting or finance, business or management experience, human resource, risk management, mergers and acquisitions, industry knowledge and strategic planning experience.</p> <p>(c) The NC examines the Board size with a view towards determining the impact of its effectiveness. The composition of the Board is also reviewed on an annual basis to ensure the Board has appropriate mix of expertise and experience.</p>
GUIDELINE 4.6	Please describe the Board nomination process for the Company in the last financial year for (i) selecting and appointing new Directors and (ii) re-electing incumbent Directors.	Please refer to the Principle 4 of the Corporate Governance Report for details on the nomination process.
GUIDELINE 1.6	<p>(a) Are new Directors given formal training? If not, please explain why.</p> <p>(b) What are the types of information and training provided to (i) new Directors and (ii) existing Directors to keep them up-to-date?</p>	<p>(a) Appropriate external training in areas such as financial, legal and industry-specific knowledge is arranged for new Directors, where necessary.</p> <p>(b) The Directors have been made aware of and are familiar with their duties and obligations. They will also be briefed from time to time on regulatory changes.</p>

REPORT ON CORPORATE GOVERNANCE

Guideline	Questions	How has the Company complied?
GUIDELINE 4.4	<p>(a) What is the maximum number of listed company Board representations that the Company has prescribed for its Directors? What are the reasons for this number?</p> <p>(b) If a maximum number has not been determined, what are the reasons?</p> <p>(c) What are the specific considerations in deciding on the capacity of Directors?</p>	<p>(a) The NC and the Board share the view that it would not be appropriate to set a maximum number of Directorships that a Director may hold.</p> <p>(b) The reason that a maximum number has not been determined is because the contribution of each Director would depend on his/her individual circumstances, including whether he/she has other principal commitments, full time positions and other additional responsibilities.</p> <p>(c) The factors taken into consideration in deciding on the capacity of Directors include Directors' attendance, participation, contribution at meetings, preparedness for meeting, etc.</p>
Board Evaluation		
GUIDELINE 5.1	<p>(a) What was the process upon which the Board reached the conclusion on its performance for the financial period?</p> <p>(b) Has the Board met its performance objectives?</p>	<p>(a) Please refer to Principle 5 of the Corporate Governance Report.</p> <p>(b) Yes. The NC has assessed the current Board's performance to-date and is of the view that the performance of the Board as a whole was satisfactory.</p>
Independence of Directors		
GUIDELINE 2.1	Does the Company comply with the guideline on the proportion of independent Directors on the Board? If not, please state the reasons for the deviation and the remedial action taken by the Company.	Yes. The Board has 3 Independent Directors out of a total of 8 Board members.
GUIDELINE 2.3	<p>(a) Is there any Director who is deemed to be independent by the Board, notwithstanding the existence of a relationship as stated in the Code that would otherwise deem him not to be independent? If so, please identify the Director and specify the nature of such relationship.</p> <p>(b) What are the Board's reasons for considering him independent? Please provide a detailed explanation.</p>	<p>(a) No</p> <p>(b) Not applicable</p>

REPORT ON CORPORATE GOVERNANCE

Guideline	Questions	How has the Company complied?
GUIDELINE 2.4	Has any independent Director served on the Board for more than nine periods from the date of his first appointment? If so, please identify the Director and set out the Board's reasons for considering him independent.	No
Disclosure on Remuneration		
GUIDELINE 9.2	Has the Company disclosed each Director's and the CEO's remuneration as well as a breakdown (in percentage or dollar terms) into base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?	The Company has disclosed a breakdown of each Director's and the CEO's remuneration (in percentage terms) into Directors' fee, fixed and variable components as well as benefits, but did not disclose the exact dollar terms of their remuneration as such details are sensitive in nature.
GUIDELINE 9.3	<p>(a) Has the Company disclosed each key management personnel's remuneration, in bands of S\$250,000 or in more detail, as well as a breakdown (in percentage or dollar terms) into base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?</p> <p>(b) Please disclose the aggregate remuneration paid to the top five key management personnel (who are not Directors or the CEO).</p>	<p>(a) The Company has disclosed a breakdown key management personnel's remuneration (in percentage terms) into fixed and variable components as well as other benefits, but did not disclose in dollar terms as the remuneration of the key management personnel is a commercially sensitive matter, given that the Company operates in a highly competitive environment where potential poaching of employees by competitors is fairly common.</p> <p>(b) The Company is not in favor of disclosing the aggregate remuneration paid to the top 4 key management personnel (who are not Directors or the CEO) due to the sensitive nature of such information. It is not in the best interest of the Company as the industry which the Company operates in is highly competitive environment in respect of the recruitment of experienced executives.</p>
GUIDELINE 9.4	Is there any employee who is an immediate family member of a Director or the CEO, and whose remuneration exceeds S\$50,000 during the period? If so, please identify the employee and specify the relationship with the relevant Director or the CEO.	The Company does not have any employee who is an immediate family member of a Director.

REPORT ON CORPORATE GOVERNANCE

Guideline	Questions	How has the Company complied?
GUIDELINE 9.6	<p>(a) Please describe how the remuneration received by executive Directors and key management personnel has been determined by the performance criteria.</p> <p>(b) What were the performance conditions used to determine their entitlement under the short-term and long-term incentive schemes?</p> <p>(c) Were all of these performance conditions met? If not, what were the reasons?</p>	<p>(a) Please refer to Principle 9 of the Corporate Governance Report.</p> <p>(b) Please refer to Principle 9 of the Corporate Governance Report.</p> <p>(c) Yes.</p>
Risk Management and Internal Controls		
GUIDELINE 6.1	What types of information does the Company provide to independent Directors to enable them to understand its business, the business and financial environment as well as the risks faced by the Company? How frequently is the information provided?	Please refer to Principle 6 of the Corporate Governance Report.
GUIDELINE 13.1	Does the Company have an internal audit function? If not, please explain why.	Please refer to Principle 13 of the Corporate Governance Report.
GUIDELINE 11.3	<p>(a) In relation to the major risks faced by the Company, including financial, operational, compliance, information technology and sustainability, please state the bases for the Board's view on the adequacy and effectiveness of the Company's internal controls and risk management systems.</p> <p>(b) In respect of the past 12 months, has the Board received assurance from the CEO and the CFO as well as the internal auditor that: (i) the financial records have been properly maintained and the financial statements give true and fair view of the Company's operations and finances; and (ii) the Company's risk management and internal control systems are effective? If not, how does the Board assure itself of points (i) and (ii) above?</p>	<p>(a) Please refer to Principle 11 of the Corporate Governance Report.</p> <p>(b) Please refer to Principle 11 of the Corporate Governance Report.</p>
GUIDELINE 12.6	<p>(a) Please provide a breakdown of the fees paid in total to the external auditors for audit and non-audit services for the financial period.</p> <p>(b) If the external auditors have supplied substantial volume of non-audit services to the Company, please state the bases for the Audit Committee's view on the independence of the external auditors.</p>	<p>(a) During the period under review, the aggregate of fees paid to the external auditors was S\$75,000, comprising S\$45,000 for audit services and S\$30,000 for non-audit services.</p> <p>(b) The AC has undertaken a review of all the non-audit services provided by external auditors during the period is satisfied that such services would not, in the AC's opinion, affect the independence and objectivity of the external auditors.</p>

REPORT ON CORPORATE GOVERNANCE

Guideline	Questions	How has the Company complied?
Communication with Shareholders		
GUIDELINE 15.4	<p>(a) Does the Company regularly communicate with shareholders and attend to their questions? How often does the Company meet with institutional and retail investors?</p> <p>(b) Is this done by a dedicated investor relations team (or equivalent)? If not, who performs this role?</p> <p>(c) How does the Company keep shareholders informed of corporate developments, apart from SGXNET announcements and the annual report?</p>	<p>(a) Please refer to Principles 15 and 16 of the Corporate Governance Report.</p> <p>(b) The Group has specifically entrusted an investor relations team comprising the Executive Directors, CEO and the CFO with the responsibility of facilitating communications with shareholders and analysts and attending to their queries or concerns.</p> <p>(c) Please refer to Principles 15 and 16 of the Corporate Governance Report.</p>
GUIDELINE 15.5	If the Company is not paying any dividends for the financial period, please explain why.	Neither interim tax exempt one-tier dividend nor final tax exempt one-tier dividend were declared for the financial period ended 31 December 2018. The form, frequency and amount of dividends will depend on the Group's earnings, general financial condition, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the Directors may deem appropriate.