DYNA-MAC HOLDINGS LTD.
Co. Reg. No. 200305693E
(Incorporated in Singapore)

EMPHASIS OF MATTER BY INDEPENDENT AUDITORS ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

In compliance with Rule 704(5) of the Listing Manual, the Board of Directors of Dyna-Mac Holdings Ltd (the “Company” and together with its subsidiaries, the “Group”) wishes to inform shareholders and investors that its independent auditors, PricewaterhouseCoopers LLP (the “Auditors”), have included an emphasis of matter with respect to our low order book and the uncertainty over the availability and timing of award of new contracts which may cast significant doubt on the ability of the Group to continue as a going concern, in their report (the “Independent Auditor’s Report”) on the financial statements of the Group for the financial year ended 31 December 2016 (the “Financial Statements”).

The opinion of the Auditors however remains unqualified.

A copy of the Independent Auditor’s Report together with the extract of the relevant note to the Financial Statements is annexed to this announcement.

BY ORDER OF THE BOARD

Lim Tze Jong
Executive Chairman / Chief Executive Officer

Date: 31 March 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DYNA-MAC HOLDINGS LIMITED

Report on the Audit of the Financial Statements

Our opinion

In our opinion, the accompanying consolidated financial statements of Dyna-Mac Holdings Limited ("the Company") and its subsidiaries ("the Group") and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

What we have audited

The financial statements of the Company and the Group comprise:
- the consolidated balance sheet of the Group as at 31 December 2016;
- the balance sheet of the Company as at 31 December 2016;
- the consolidated statement of comprehensive income of the Group for the year then ended;
- the consolidated statement of changes in equity of the Group for the year then ended;
- the consolidated statement of cash flows of the Group for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Group incurred a net loss of S$15,665,000 during the year ended 31 December 2016 and has a net order book of S$12,800,000 as at that date. As stated in Note 2, the low order books and the uncertainty over the availability and timing of award of new contracts indicates that a material uncertainty exists that may cast significant doubt on the ability of the Group to continue as a going concern. Should the Group be unable to continue as a going concern, adjustments will have to be made to the financial statements to reflect the situation. The accompanying financial statements do not include the adjustments that would result if the Group is unable to continue as a going concern. Our opinion is not modified in respect of this matter.

Our Audit Approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the accompanying financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year ended 31 December 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Description of key audit matter	***How our audit addressed the key audit matter***
Property, plant and equipment *(Refer to Note 3 and 19 to the financial statements)* The carrying value of the Group's property, plant and equipment amounted to S$72,146,000 at 31 December 2016. The downturn in the oil and gas industry has impacted the Group's operations and management has determined this to be an indicator that the Group's property, plant and equipment may be impaired. Management had performed an impairment test to assess the recoverable amount of the Group's property, plant and equipment, which is the higher of fair value less costs to sell and value in use. As a result of the assessment, the Group recognised an impairment charge of S$11,128,000 on its property, plant and equipment. We focused on this area due to significant judgement required by management in respect of the estimated resale values, provided by independent parties to the Group.	We obtained management's impairment assessment which included their assumptions on the recoverable amount of the property, plant and equipment, based on fair value less costs to sell, and evaluated the reasonableness of the inputs and assumptions considering our knowledge of the business and our understanding of the industry. We assessed the methodologies used by the independent party to estimate resale values of the property, plant and equipment by verifying the fair value less costs to sell to vendor quotations in the second-hand market. We also considered the adequacy of the Group's disclosures in relation to impairment of these property, plant and equipment. Based on our procedures, we found management's assessment to be appropriate. We also found the disclosures in the financial statements in respect of the valuation of property, plant and equipment to be adequate.
Goodwill *(Refer to Note 3 and 21 to the financial statements)* The Group's annual test for impairment of the goodwill which arose from its acquisition of a	We obtained management's VIU calculations and evaluated the reasonableness of the inputs and

subsidiary, DMP Marine Fabricator (Nansha) Co. Ltd. ("DMP"), of S$5,556,000, resulted in the recognition of the entire amount as impairment loss on goodwill during the year. In determining the cash flow projections, management was required to make assumptions about the key inputs including future revenues, gross margins and the long-term growth rate in China, which is the market in which the CGU is based. We focused on this area as the test for impairment involved the assessment of the recoverable amount of DMP, which was identified as a cash-generating unit ("CGU"), using the value-in-use ("VIU") model that required management to exercise significant judgement over the cash flow projections and discount rates of the CGU.	assumptions considering our knowledge of the business and our understanding of the industry, and by comparing with the historic performance of the CGU and the growth expectation from external parties for the market in which the CGU operates. Based on our procedures, we found management's assumptions in the assessment of the recoverable amount of the CGU to be appropriate. We also found the disclosures in the financial statements in respect of the assessment of impairment of goodwill to be adequate.
Construction contracts *(Refer to Note 2.8, 4 and 15 to the financial statements)* The Group's revenue and cost of sales for the year represents contract revenue and contract costs based on the percentage-of-completion ("POC") method. We focused on this area because of the significant judgement required in: • the estimation of total contract costs to completion which would impact the contract margin recognised; and • ascertaining whether circumstances exist where total contract costs exceed total contract revenues which would result in the expected loss being recognised as an expense immediately.	Our audit procedures included an examination of contract documentation, and discussions on the status of contracts where construction is in progress with senior management of the Group. We tested the key controls the Group designed and implemented over its process to record contract costs and contract revenues and the calculation of the stage of completion. We tested the effectiveness of management's controls over the estimation of total costs and assessed the reasonableness of key inputs in the cost estimation. We tested the appropriateness of estimated costs by comparing these against actual costs incurred. We also compared the total estimated contract costs until completion against the latest contract revenue agreed upon with the customer to determine if there were any contracts for which total costs exceed total revenues. We then recomputed the revenue and expenses recognised for the current financial year based on the respective contract POC. Based on our procedures, we found the assumptions made in this area to be reasonable. We also found the disclosures in the financial statements to be adequate.

Other Information

Management is responsible for the other information. The other information comprises all the sections of the annual report but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of Management and Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Chian Yorn.

PricewaterhouseCoopers LLP

Public Accountants and Chartered Accountants

Singapore, 31 March 2017

Going concern assumption

The Group has recognized a net loss of S$15,665,000 for the year ended 31 December 2016 (2015: loss of S$5,183,000). The loss was determined after recording S$11,312,000 in write-off of certain long outstanding debts, S$5,556,000 of impairment of goodwill relating to the operations in China and S$11,128,000 of impairment of property, plant and equipment.

The downturn in the oil and gas industry has resulted in reduced global exploration and production expenditure by oil and gas companies. Oil field exploration projects have also had their commencement delayed or been cancelled, and correspondingly the demand for the fabrication of topside modules by the Group for floating production storage offloading ("FPSO") and floating storage offloading ("FSO") vessels has also reduced. Management has observed that the contracts available for tender relevant to the Group, are of lower award value and with lower margins as compared with previous years. At 31 December 2016, the Group has orders amounting to S$12,800,000 (2015: S$175,300,000). The low order books and uncertainty over the availability and timing of award of new contracts indicates the existence of a material uncertainty which has cast significant doubt on the ability of the Group to generate sufficient operating cash flows and continue as a going concern.

Notwithstanding these, management has prepared the accompanying financial statements on a going concern basis after considering the following:

1. Net current assets

   The Group has net current assets amounting to S$81,768,000, which include cash and bank balances of S$69,535,000 as at 31 December 2016.

2. Potential new orders

   Management expects to secure new contracts at profitable margins with reputable customers. Management also intends to source for and negotiate new contracts, in both the offshore segment of the oil and gas industry, as well as onshore works which require the Group's area of expertise in detailed engineering, fabrication and construction.

3. Availability of credit facilities

   At 31 December 2016, the Group has no other secured borrowing other than its borrowings disclosed in Note 24 and unutilized credit facilities of S$20,000,000 from financial institutions available should the need arise. Furthermore, the Group's investment properties and property, plant and equipment, including its yard facilities, are free of any encumbrance. Management believes that the Group will be able to secure further financing from financial institutions by securing its properties against such financing if needed. Management is also confident that when the business environment improves and new sizeable contracts are secured by the Group, additional working capital support will be available from financial institutions, as well as from Singapore government agencies following the recently announced budget initiatives.

As described in the preceding paragraphs, management is confident that the Group has adequate resources to continue in operational existence for at least another twelve months from the balance sheet date, and that the continuing use of the going concern assumption in the preparation of the financial statements is appropriate.

Should the Group be unable to continue as a going concern, adjustments will have to be made to the financial statements to reflect the situation. The accompanying financial statements do not include the adjustments that would result if the Group is unable to continue as a going concern.