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Independent auditor's report

Members of the Company
Tat Hong Holdings Ltd

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Tat Hong Holdings Ltd (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 March 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages FS1 to FS87.

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

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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Valuation of non-financial assets
(Refer to notes 4, 6, 7 and 10 to the financial statements)

The key audit matter

As at 31 March 2017, the Group's net asset value exceeded its market capitalisation by $307.7 million, which is an indication that the Group's non-financial assets may be impaired. The carrying value of the Group's non-financial assets amounted to $791.8 million as at 31 March 2017, comprising mainly property, plant and equipment, investments in associates and joint ventures, and goodwill.

The recoverable amounts of the Group's non-financial assets were estimated based on either value-in-use calculations (i.e. discounted future cashflows) or fair value less costs to sell (FVLCTS).

Value-in-use calculations are applied in estimating the recoverable amounts of goodwill for the Group's Australian operations and investments in associates. Management exercised judgement in estimating the future cashflows from these operations based on key assumptions relating to revenue growth rates, profit margins and discount rates.

For property, plant and equipment, where FVLCTS method is used, management engaged external independent valuers to determine the fair values of the property, plant and equipment. The fair values are dependent on the valuation methodology and assumptions used by the valuers.

Inappropriate assumptions used in the above calculations could have a material impact on the carrying amounts of the Group's non-financial assets.

How the matter was addressed in our audit

Our response

We evaluated the governance over the budgeting process from which the discounted cashflow forecasts for value-in-use calculations were derived.

We assessed management's estimates and the discount rates applied in the value-in-use models based on our knowledge of the Group's operations and compared against historical performance, publicly available information, industry and economic reports. This included making enquiries with management to understand their planned strategies around business growth and profit margin sustainability.

We evaluated the qualifications and competence of the external valuers. We read the terms of engagement of the external valuers to determine if there are any matters that may affect their objectivity or limit their scope of work.

We compared the valuation methodologies and key assumptions used by the valuers in their fair values to generally accepted market practices and financial information.

Our findings

We found the impairment assessment methodologies and key assumptions applied in the value-in-use calculations to be balanced.

We have no concern over the objectivity and competency of the external valuers and their valuation methodologies and assumptions are in line with generally accepted market practices.

Valuation of inventories
(Refer to note 12 to the financial statements)

The key audit matter

Inventories of $145.0 million at 31 March 2017 (31 March 2016: $147.0 million) are a material balance for the Group. Inventories comprise cranes and spares, amounted to $104.4 million and $40.6 million respectively. There is a risk that inventory items could not be sold above their carrying values.

Management reviews inventories to ascertain if a provision is required for cranes aged more than 1 year. Management obtains a valuation report from external valuers in order to assess the realisable value of the cranes. The cranes are recorded based on the lower of cost and net realisable value.

Significant judgement is required to determine the net realisable value of inventories.

How the matter was addressed in our audit

Our response

We enquired and reviewed the management's process for assessment of inventories net realisable value. This includes making enquiries with management to understand their plan with regard to future sales and to ascertain if there are any inventories which are no longer in use. We have selected significant and/or old inventory items for checking to past sales and sales subsequent to year end.

For inventories that were subject to independent valuations by external valuers, we evaluated the qualifications and competence of the external valuers. We read the terms of engagement of the external valuers to determine if there are any matters that may affect their objectivity or limit their scope of work.

We compared the valuation methodologies and key assumptions used by the valuers in their fair values to generally accepted market practices and financial information.

Our findings

We observed management has a structured process for determining the net realisable value of inventories and found management's estimate of the provision for inventory to be balanced. We have no concern over the objectivity and competency of the external valuers.

Recognition of deferred tax assets
(Refer to note 9 to the financial statements)

The key audit matter

The Group has significant deferred tax assets amounting to $10.8 million as at 31 March 2017. There is inherent uncertainty involved in forecasting future taxable profits, which determines the extent to which deferred tax assets are or are not recognised.

How the matter was addressed in our audit

Our response

Our audit procedures included using our work on the Group's cash flow forecasts described in our response to the valuation of non-financial assets key audit matter above. The cash flow forecasts were used to derive the estimated future taxable profits.

We enquired with management to understand their future tax plan to ascertain if there will be adequate taxable profits in the future to utilise the deferred tax assets, taking into account the group's tax position, the timing of forecast taxable profits, and our knowledge and experience of the relevant tax legislations.

We also assessed the group's disclosures about the sensitivity of the recognition of deferred tax assets to changes in key assumptions underlying the future cash flow forecasts.

Our findings

We found the assumptions used by management in estimating the future taxable profits to be balanced, and the related disclosures to be appropriate.

Other information

Management is responsible for the other information. The other information comprises the Directors' Statement which we obtained prior to the date of this auditor's report, and the Group Structure, Chairman's message, Dialogue with the Group CEO, Operations and Financial Review, Board of Directors, Key Management, Financial Highlights, 5-year Financial Summary, Crane Fleet Size, Investor Relations, Corporate Responsibility, Key Milestones, Corporate Information and Corporate Governance (the Reports), which are expected to be made available to us after that date.

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.

When we read the Reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged and take appropriate actions in accordance with SSAs.

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 Lucas Tran.

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Public Accountants and
Chartered Accountants

Singapore
30 May 2017