

## Independent Auditor's Report



To the shareholders of Hong Kong International Construction Investment Management Group Co., Limited  
(Incorporated in Bermuda with limited liability)

### Opinion

We have audited the consolidated financial statements of Hong Kong International Construction Investment Management Group Co., Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 57 to 167, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the 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 consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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### Key Audit Matters (Cont'd)

#### Key Audit Matter

##### *Net realisable value of properties under development*

As at 31 December 2018, the Group had properties under development for sale located in Hong Kong of HK\$7,476 million. The Group has written down the properties under development by HK\$453 million during the year.

The properties under development are stated at the lower of cost and net realisable value. Significant judgement and estimates from management is involved in estimating the future selling price and the necessary costs to complete the sales of these properties, and is assessed by management with reference to an independent valuation carried out by an external property valuer.

The accounting policies, accounting judgements and estimates and disclosures for the properties under development are included in notes 2.4, 3 and 17 to the financial statements.

#### How Our Audit Addressed the Key Audit Matter

Our procedures included reviewing management's valuation assessments and the external valuation report prepared by the external property valuer engaged by the Group and on which the management's assessment of the net realisable value of the properties under development was based. We assessed the qualifications, experience and expertise of the external property valuer. With the assistance of our internal property valuation specialists, we discussed with management and the external property valuer their valuation methodologies and assessed the key estimates and assumptions adopted in the valuation, including expected future selling prices and costs to completion, by comparing expected future selling prices to recently transacted prices for similar properties or the prices of comparable properties located in the vicinity of the development, and cost information for properties of similar nature and location by utilising the industry knowledge and experience of our internal property valuation specialists.

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### Key Audit Matters (Cont'd)

#### Key Audit Matter (Cont'd)

##### *Revenue recognition contributed from construction works*

During the year ended 31 December 2018, the Group has recognised construction revenue from the foundation piling and site investigation works of HK\$2,531 million. Such revenue was recognised over time using an input method – based on progress towards complete satisfaction of the construction services which involves significant management judgement and estimation. The contract revenue was estimated by management based on contract sum and work values from variation orders, taking into account the financial impact of scope changes, claims, disputes and negotiation with employers. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract as the contract progresses.

When determining the total budgeted costs, significant estimation is required and management makes reference to information such as (i) current or recent offers from subcontractors and suppliers, (ii) variation orders received from customers, and (iii) estimation on project material costs, labour costs and other costs for the completion of the projects provided by the quantity survey department.

The accounting policies, accounting judgements and estimates and disclosures for the recognition of revenue from the foundation piling and site investigation work are included in notes 2.4, 3 and 5 to the financial statements.

#### How Our Audit Addressed the Key Audit Matter (Cont'd)

Our procedures included performing analysis of revenue, gross profit trend and their fluctuations, and the cost structure of construction contracts. We checked contract revenue, on a sample basis, to amounts stated in contracts, variation orders and instructions from architects and final accounts agreed with customers. We compared budgeted costs prepared by the quantity survey department to accounting records of selected contracts and source documents, e.g., quotations and payment certificates from subcontractors, correspondence with customers, architects and subcontractors. We also checked the budgeted costs by comparing with costs incurred by other similar projects, taking into account the historical accuracy of prior year budgets prepared by management. In addition, we also checked payment records to subcontractors, worker payroll records and other supporting documents, e.g. final accounts with subcontractors, cost allocation schedules prepared by management for the selected construction projects.

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### Key Audit Matters (Cont'd)

#### Key Audit Matter (Cont'd)

##### *Valuation of convertible bonds*

As at 31 December 2018, the Group had convertible bonds of a fair value of HK\$834 million.

The 3-year convertible bonds were subscribed by the Group during the year with a principal amount of HK\$800 million and bear interest at 8% per annum.

Significant judgement and estimates from management are involved in estimating the fair value of the convertible bonds, and are assessed by management with reference to an independent valuation carried out by an external valuer.

Key assumptions, such as risk-free rate and probability of potential investment of the issuer, were taken into account of the calculation of the fair value of convertible bonds and the selection of comparable companies and market multiples, with the adjustment of marketability discount, were involved.

The significant judgement and estimates and disclosures for valuation of convertible bonds are included in notes 3, 24 and 44 to the consolidated financial statements.

#### How Our Audit Addressed the Key Audit Matter (Cont'd)

Our procedures included inspecting the terms detailed in the convertible bond subscription agreement. We involved our internal valuation expert to assist us to assess the valuation methodology adopted by the external valuer. Key assumptions, including risk-free rate, market multiples and marketability discount, are also assessed by us with the assistance from our internal valuer by comparing to available market information and valuation standard or practice. We also evaluated management's assessment for the possibility of potential investment used in the valuation.

### Other Information Included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

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### Responsibilities of the Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are 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 the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 the directors.
- Conclude on the appropriateness of the directors' 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 consolidated 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.

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### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (*Cont'd*)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 Audit Committee 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 Audit Committee 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 Audit Committee, we determine those matters that were of most significance in the audit of the consolidated 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.

The engagement partner on the audit resulting in this independent auditor's report is Lai Wan Fung.

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29 March 2019