

Report of the Independent Auditor



Independent auditor's report to the members of
Henderson Land Development Company Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Henderson Land Development Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 140 to 249, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 2017 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 Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") 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 period. 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.

Report of the Independent Auditor

Key audit matters (continued)

Valuation of investment properties and investment properties under development	
<i>Refer to note 16 to the consolidated financial statements on pages 202 to 209 and the accounting policy 2(j)(i) on page 154.</i>	
The key audit matter	How the matter was addressed in our audit
<p>The Group holds a portfolio of investment properties and investment properties under development located in Hong Kong and across first and second-tier cities in mainland China with a fair value of HK\$172,673 million which accounted for 42% of the Group's total assets as at 31 December 2017. These properties comprise office premises, industrial premises, shopping malls, residential premises and car parking bays.</p> <p>The fair values of investment properties and investment properties under development as at 31 December 2017 were assessed by the directors based on independent valuations prepared by a firm of qualified external property valuers. The net changes in fair value of investment properties and investment properties under development recorded in the consolidated statement of profit or loss represented 30% of the Group's profit before taxation for the year ended 31 December 2017.</p> <p>We identified valuation of the Group's investment properties and investment properties under development as a key audit matter because of the significance of investment properties and investment properties under development to the Group's total assets and the significance of changes in fair value of investment properties and investment properties under development to the Group's profit before taxation and because the valuation of investment properties and investment properties under development can be inherently subjective and requires significant management judgement and estimation which increases the risk of error or potential management bias, particularly given the number and the diverse nature and location of the investment properties and investment properties under development held by the Group.</p>	<p>Our audit procedures to address the valuation of investment properties and investment properties under development included the following:</p> <ul style="list-style-type: none"> obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group and on which the directors' assessment of the fair values of investment properties and investment properties under development was based; assessing the external property valuers' qualifications, experience and expertise in the properties being valued and considering their objectivity and independence; with the assistance of our internal property valuation specialists, discussing with the external property valuers, without the presence of management, their valuation methodology and assessing the key estimates and assumptions adopted in the valuations by comparing capitalisation rates, prevailing market rents and comparable market transactions with the available market data and by utilising the industry knowledge and experience of our internal property valuation specialists; comparing tenancy information, including committed rents and occupancy rates, provided by the Group to the external property valuers with underlying contracts and related documentation, on a sample basis; conducting site visits to investment properties under development, on a sample basis, to observe the development progress and evaluating management's development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group.

Report of the Independent Auditor

Key audit matters (continued)

Assessing the net realisable value of properties held for/under development for sale and completed properties for sale in mainland China

Refer to note 23 to the consolidated financial statements on page 218 and the accounting policy 2(o) on page 160.

The key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2017, the Group owned properties held for/under development for sale and completed properties for sale located in Hong Kong and across various cities in mainland China with carrying amounts of HK\$62,944 million in aggregate, which represented 15% of the Group's total assets at that date.</p> <p>These properties are stated at the lower of cost and net realisable value. The determination of the net realisable value of these properties requires estimations, including expected future selling prices and costs necessary to complete the sale of these properties, and is assessed by Group management with reference to the independent valuations carried out by the external property valuers for certain properties.</p> <p>Changes in government policies, which affect interest rates, the required reserve ratio for banks and/or mortgage requirements for second-home buyers, could lead to volatility in property prices, particularly for properties in mainland China.</p> <p>We identified the assessment of the net realisable value of the properties in mainland China as a key audit matter because of the significance of these properties to the Group's total assets and because the assessment of net realisable value is inherently subjective and requires significant management judgement and estimation in relation to estimating future selling prices and future construction costs which increases the risk of error or potential management bias.</p>	<p>Our audit procedures to assess the net realisable value of properties held for/under development for sale and completed properties for sale in mainland China included the following:</p> <ul style="list-style-type: none">• obtaining and inspecting Group management's valuation assessments and/or the external valuation reports prepared by external property valuers engaged by the Group and on which the directors' assessment of the net realisable value of the properties held for/under development for sale and completed properties for sale was based;• assessing the qualifications, experience and expertise of Group management and/or the external property valuers in the nature and locations of the properties being valued;• with the assistance of our internal property valuation specialists, discussing with management and/or the external property valuers their valuation methodologies and assessing the key estimates and assumptions adopted in the valuations, including expected future selling prices and costs to completion, by comparing expected future selling prices to, where available, recently transacted prices for similar properties or the prices of comparable properties located in the vicinity of each development, and publicly available construction cost information for properties of a similar nature and location and by utilising the industry knowledge and experience of our internal property valuation specialists;• conducting site visits to properties under development for sale, on a sample basis, to observe the development progress and evaluating the management's development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group.

Report of the Independent Auditor

Key audit matters (continued)

Revenue recognition on sale of properties with legal completion pending at the end of the reporting period	
<i>Refer to note 5 to the consolidated financial statements on page 177 and the accounting policy 2(x)(i) on page 165.</i>	
The key audit matter	How the matter was addressed in our audit
<p>The Group recorded revenue from the sale of properties of HK\$16,522 million for the year ended 31 December 2017. Certain sales of properties in Hong Kong have been recognised as revenue during the reporting period where the legal completion of the sale is scheduled after the end of the reporting period.</p> <p>Revenue arising from sale of properties is recognised upon the later of the signing of a sale and purchase agreement and the physical completion of the properties. This is based on an underlying principle that it is probable that the economic benefits associated with the transaction will flow to the entity. This underlying principle is particularly critical in situations where revenue is recognised prior to the legal completion of a property sale transaction, which is the point in time when the full amount of the sale consideration is settled and legal title of the property is transferred.</p> <p>We identified revenue recognition for those property sale transactions in Hong Kong where legal completion is scheduled after the end of the reporting period as a key audit matter because the assessment of the likelihood of the economic benefits associated with the related transaction flowing to the Group is inherently subjective and requires significant management judgement as to whether they consider it is likely that the buyer will legally complete the sales transaction and pay all amounts due under the contract, particularly when property prices in Hong Kong can be volatile.</p>	<p>Our audit procedures in relation to revenue recognition for such property sale transactions included the following:</p> <ul style="list-style-type: none">• assessing the design, implementation and operating effectiveness of management's internal controls over the recording of revenue from the sale of properties;• assessing management's assessment of the probability of the legal completion of the pending property sale transactions occurring and, hence, the collection of the remaining balances of the consideration associated with such transactions where legal completion is scheduled after the end of the reporting period, with reference to the receipt of payments subsequent to the end of the reporting period and other relevant information such as the background of the buyers and their previous sales records with the Group, the timeliness of past settlement of deposits and instalments, correspondence between the Group and the buyers as well as other publicly available information;• comparing the above payment records to the underlying books and records of the Group, on a sample basis;• making enquiries of management about any potential delays or cancellations of the legal completion of property sales transactions.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all 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.

Report of the Independent Auditor

Responsibilities of the directors for the consolidated financial statements

The directors 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 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors 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. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, 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 scepticism 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.

Report of the Independent Auditor

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- 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 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 Felix Kwo Hang Lee.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 March 2018