INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GUOCO GROUP LIMITED

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Guoco Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 82 to 177, which comprise the consolidated statement of financial position as at 30 June 2017, the consolidated income statement, 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 30 June 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 disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

ASSESSING POTENTIAL IMPAIRMENT OF HOTEL PROPERTIES AND INTANGIBLE ASSETS

Refer to notes 14 and 15 to the consolidated financial statements and the accounting policies in notes 2(e), 2(f) and 2(k)(ii).

The Key Audit Matter	How the matter was addressed in our audit
The Group holds a number of hotel properties located in the United Kingdom which are measured at cost less accumulated depreciation and impairment losses. The Group also holds casino, other gaming licences and concessions in the United Kingdom, as well as a small number in Spain and Belgium, the majority of which are classified as intangible assets with indefinite useful lives. As at 30 June 2017 the carrying values of hotel properties and capitalised casino, other gaming licences and concessions totalled US$1,984 million in aggregate, representing 12% of the Group's total assets as at that date. The estimation of the recoverable amount each cash generating unit ("CGU") to which these assets have been allocated is sensitive to the key assumptions applied in the value-in-use models, which include occupancy rates and revenue per available room in deriving the projected cash flows for hotel properties; customer visits, win margins and spend per head in deriving the projected cash flows for casino, other gaming licences and concession; growth rates and the discount rates applied. The current economic environment in the United Kingdom may put pressure on hotel room rates and occupancy levels and customer visits and spend per head for casinos. We identified assessing potential impairment of hotel properties and intangible assets as a key audit matter because of the significant level of management judgement required to be exercised in determining the assumptions adopted in the impairment assessments which can be inherently uncertain and could be subject to management bias.	Our audit procedures to assess potential impairment of hotel properties and intangible assets included the following: • evaluating the Group's identification of CGUs and the amounts of hotel properties, casino, other gaming licences and concessions allocated to each CGU; • evaluating the Group's process for identification of indicators of potential impairment of hotel properties; • assessing whether the Group's impairment assessment models were prepared in accordance with the requirements of the prevailing accounting standards; • with the assistance of our internal valuation specialists, assessing the valuation methodology adopted by the Group and comparing the key assumptions applied in the computation of recoverable amounts with available industry data, which included occupancy rates and revenue per available room for hotel properties and customer visits, win margins and spend per head for casino, other gaming licences and concessions; • assessing the growth rates and discount rates adopted in the impairment assessments by comparing them with historical rates and available industry data, taking into consideration comparability and market factors; • evaluating the historical accuracy of management's calculations of the recoverable amounts of each CGU by comparing the forecasts at the end of the previous financial year for key assumptions and estimates with the actual outcomes in the current year; and • determining the extent of change in those estimates that, either individually or collectively, would be required for each CGU to be materially misstated and considering the likelihood of such a movement in those key estimates arising and whether there was any evidence of management bias.

VALUATION OF INVESTMENT PROPERTIES

Refer to note 14 to the consolidated financial statements and the accounting policies in note 2(g).

The Key Audit Matter	How the matter was addressed in our audit
The Group owns a portfolio of investment properties, comprising commercial properties in Hong Kong, Singapore, Malaysia and China, and a reversionary interest in freehold land in Singapore. As at 30 June 2017, the carrying value of investment properties was US$2,349 million, representing 14% of the Group's total assets as at that date. The fair values of the Group's investment properties were assessed by management based on independent valuations prepared by external property valuers. The net changes in fair value of investment properties in the consolidated income statement represented 21% of the Group's profit before taxation for the year ended 30 June 2017. We identified valuation of investment properties as a key audit matter because the determination of the fair values involves significant judgement and estimation, particularly in selecting the appropriate valuation methodology and in determining the underlying assumptions, which increase the risk of error or potential management bias, and because the valuations are sensitive to the key assumptions applied, including those relating to sales prices per square foot ("psf"), gross development value psf, the discount rates applied and terminal yield rates.	Our audit procedures to assess the valuation of investment properties included the following: • evaluating the qualifications, experience and competence of the external property valuers engaged by management and holding discussions with the external property valuers, without the presence of management, to understand their valuation methods and the assumptions applied; • evaluating the valuation methodology used by the external property valuers by comparison with the valuation methodologies applied by other valuers for similar property types; • assessing the projected cash flows used in the valuations by comparing specific details with underlying leases and externally available industry and economic data; and • assessing the key assumptions adopted in the valuations, including those relating to sales prices psf, gross development value psf, the discount rates applied and terminal yield rates, by comparing them with historical rates and available industry data, taking into consideration comparability and market factors, and considering the possibility of error or management bias in the selection of assumptions adopted.

VALUATION OF DEVELOPMENT PROPERTIES AND PROPERTIES HELD FOR SALE

Refer to notes 21 and 22 to the consolidated financial statements and the accounting policies in notes 2(i) and 2(j).

The Key Audit Matter	How the matter was addressed in our audit
The Group's development properties mainly comprise residential properties in the course of development and completed properties in Singapore, Malaysia and China. As at 30 June 2017 the carrying values of development properties and properties held for sale totalled US$2,780 million in aggregate, representing 17% of the Group's total assets as at that date. Development properties and properties held for sale are stated at the lower of their cost and net realisable value ("NRV"). The assessment of NRV of development properties and properties held for sale involves the exercise of significant management judgement, particularly in estimating forecast selling prices and estimated costs to complete the development of the properties. Future trends in selling prices may depart from known trends based on past experience given the current economic slowdown and prevailing government policies in the jurisdictions in which the development properties are located. Total development costs may also vary with market conditions and unforeseen circumstances may arise during construction leading to cost overruns. Therefore, there is a risk that the estimated NRV may exceed future selling prices, resulting in losses when these properties are subsequently sold. We identified valuation of development properties and properties held for sale as a key audit matter because the assessment of NRV is inherently subjective and requires significant management judgement and estimation in relation to forecasting selling prices, development costs and selling expenses, which increases the risk of error or potential management bias.	Our audit procedures to assess the valuation of development properties and properties held for sale included the following: • evaluating the Group's estimated total development costs for development projects with slower-than-expected sales or low margins, by comparing the costs with contracts and related agreements, taking into consideration the costs incurred to date, construction progress and any significant deviation in design plans or cost overruns; and • assessing the Group's forecast selling prices for development projects with slower-than-expected sales or low margins, by comparison with recent transacted sales prices for the same project and/or comparable properties in the vicinity of the development and considering the possibility of error or management bias.

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.

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 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 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 Board Audit and Risk Management 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 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 HKSAs 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 HKSAs, 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

- 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.

- 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 Board Audit and Risk Management 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 Board Audit and Risk Management 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 Board Audit and Risk Management 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 David Benjamin Lewellin Rhys.

KPMG
Certified Public Accountants
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29 August 2017