

# Independent Auditor's Report



羅兵咸永道

## To the Shareholders of FSE Engineering Holdings Limited

*(incorporated in Cayman Islands with limited liability)*

### OPINION

#### **What we have audited**

The consolidated financial statements of FSE Engineering Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 72 to 138, which comprise:

- the consolidated statement of financial position as at 30 June 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### **Our opinion**

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 ("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 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 HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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## 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.

A key audit matter identified in our audit is summarised as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Revenue recognition of the contracting work</p> <p>Refer to Note 4.1 in the critical accounting estimates and judgements in the consolidated financial statements.</p> <p>The Group recognises its contracting revenue according to the percentage of completion of individual contracting work. The Group has recognised HK\$3,470,516,000 contracting revenue in relation to contracting work for the year ended 30 June 2017.</p> <p>Because of the nature of the activity undertaken in contracts, the date at which the contract activity entered into and the date when the activity is completed usually fall into different financial periods. Management is required to exercise significant judgement in their review and revision of the estimates of the completeness and accuracy of the total contract revenue, total contract costs and actual costs incurred for each contract as the contract progresses, based on past experience and market circumstances, especially in relation to change in estimates of revenue and costs arising from variation orders, litigation and claims with the customers and sub-contractors.</p> <p>The eventual realisation of these estimates are inherently uncertain, subject to the outcome of negotiations with the customers and sub-contractors. Any revision of the total contract revenue, total contract costs and actual costs incurred, which determined the percentage of completion, would affect the contracting revenue recognition and may result in material adjustments to margin, which can be both positive and negative.</p>	<p>Our audit procedures in relation to revenue recognition of the contracting work included the following:</p> <ul style="list-style-type: none"><li>— Tested the operating effectiveness of key controls operated by the Group about the estimation of the total contract revenue, total contract costs and actual costs incurred;</li><li>— Checked, on a sample basis, the contractual terms of the work and variation orders in order to understand their work nature and contractual relationships with the customers; checked correspondences with the customers, including the agreed documents or communication evidence to evaluate the reasonableness of management's estimates on the budgeted total contract revenue, especially the estimates of revenue arising from variation orders and claims;</li><li>— Checked, on a sample basis, to correspondences, such as agreed documents or communication evidence, with the sub-contractors, and legal advice obtained from internal or external legal counsel to evaluate the reasonableness of management's assessment of budgeted total contract costs and actual costs incurred, especially the estimates of costs relating to variation orders, litigation and claims; and</li><li>— Selected contracts, on a sample basis, to perform interview with the project directors and assessed whether or not these estimates showed any evidence of management bias.</li></ul> <p>We found the management's estimations and judgements on the revenue recognition in respect of contracting work to be supportable based on the available evidence.</p>

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## **OTHER INFORMATION**

The directors of the Company are responsible for the other information. The other information comprises all of 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 DIRECTORS AND THE AUDIT COMMITTEE 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 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 Audit Committee is responsible for overseeing the Group's financial reporting process.

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## 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. We report our opinion solely to you, as a body, 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 HKSA's 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 HKSA's, 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.
- 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.

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## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(Continued)*

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 Mr. Ho Chi Keung.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 22 September 2017