

Independent Auditor's Report



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To the shareholders of ESR Group Limited (formerly known as ESR Cayman Limited)

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of ESR Group Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 121 to 239, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other 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 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) 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 Hong Kong Institute of Certified Public Accountants (“**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 Company 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. 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 matter	How our audit addressed the key audit matter
<i>Impairment consideration of goodwill and the other intangible asset with indefinite useful life</i>	
<p>The goodwill of US\$3,455,498,000 and the trust management rights intangible asset with indefinite useful life of US\$1,178,477,000, are subject to an impairment review at least annually. There was no impairment recognised in current financial year.</p> <p>We identified impairment assessment of goodwill and the other intangible asset with indefinite useful life as a key audit matter because the impairment test and assessment were largely based on management's expectation and estimation of future results of the respective cash-generating units. The assumptions used in impairment test were based on management's estimates of variables including cash flow forecast, discount rate and terminal growth rate.</p> <p>Further disclosures on the Group's goodwill and the other intangible asset with indefinite useful life are in notes 19 and 20 to the consolidated financial statements.</p>	<p>We performed an understanding of the Group's process to perform the annual impairment test of goodwill and trust management rights intangible asset with indefinite useful life.</p> <p>We performed an understanding, and assessment of the assumptions and methodologies used by the Group in the value in use model.</p> <p>We involved our internal valuation specialists to evaluate the valuation methodologies and the key assumptions used by management and their independent professional valuers, such as discount rate, terminal growth rate.</p> <p>We assessed the reasonableness of cash flows projection and related assumptions such as the budgeted gross fee income and future management fee rates.</p> <p>We also assessed the Group's disclosure regarding the impairment of goodwill and the other intangible asset with indefinite useful life.</p>
<i>Valuation of investment properties held either directly or through joint ventures, associates and financial assets measured at fair value</i>	
<p>The Group's investments in property assets include investment properties held either directly or through joint ventures, associates and financial assets measured at fair value, which were subject to fair value revaluation at the end of the year. The fair value as at 31 December 2022 was assessed by independent professional valuers.</p> <p>We identified the valuation of investment properties as a key audit matter because of the significance of total fair value of these investment properties to the consolidated financial statements and the significant judgement and estimations involved in determination of the fair value. The key assumptions included, among others, adopted term yield, reversionary yield and market unit rent for warehouse properties.</p> <p>Further disclosures on the Group's investment properties are in notes 15, 16, 18 and 47 to the consolidated financial statements.</p>	<p>We performed an understanding of the Group's process regarding the valuation of investment properties.</p> <p>We evaluated the independent professional valuers' competence, capabilities and objectivity.</p> <p>We involved our internal valuation specialists to evaluate the valuation methodologies and assess the reasonableness of the key assumptions used by management and their independent professional valuers, such as the adopted term yield, reversionary yield and market unit rent by benchmarking the rates against specific property data, comparables and prior year's inputs.</p> <p>We also assessed the disclosures relating to the valuation techniques and key inputs applied by the professional valuers.</p>

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Key audit matter	How our audit addressed the key audit matter
Accounting for business combination	
<p>During the year ended 31 December 2022, the Group completed an acquisition that has resulted in the Company acquiring controlling interest in ARA Asset Management Limited and its subsidiaries (“ARA Group”).</p> <p>We identified the audit of accounting for this acquisition as a key audit matter because this is significant transaction during the year which requires significant management judgement regarding the allocation of the purchase price to the assets and liabilities acquired and adjustments made to align accounting policies of the newly acquired entities with those of the Group. This exercise also requires management to determine the fair value of the assets and liabilities acquired and to identify intangible assets acquired in the acquisition.</p> <p>Further disclosure on the Group’s business combination is in notes 34 to the consolidated financial statements.</p>	<p>We read the sales and purchase agreements and the circulars issued to the shareholders in relation to this acquisition to obtain an understanding of the transaction and the key terms.</p> <p>We assessed whether the appropriate accounting treatment has been applied to this transaction.</p> <p>We assessed the valuation for the considerations paid and traced share issuance to the share register.</p> <p>We tested the identification and fair value of the acquired assets including intangible assets acquired based on our discussion with management and understanding of the business of ARA Group.</p> <p>We involved our internal valuation specialists to evaluate the valuation methodologies and the key assumptions used by management and their independent professional valuer, such as discount rate, terminal growth rate.</p> <p>We evaluated the independent professional valuer’s competence, capabilities and objectivity.</p> <p>We also assessed the Group’s disclosure regarding this business combination.</p>

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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.

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 IFRSs issued by the IASB 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, 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.

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

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.
- 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, actions taken to eliminate threats or safeguards applied.

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 Lok Man Ho.

Ernst & Young
Certified Public Accountants
Hong Kong
22 March 2023