

INDEPENDENT AUDITOR'S REPORT

To the Members of Sobha Limited

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sobha Limited (hereinafter referred to as the "Holding Company") and its subsidiaries (Holding Company and its subsidiaries together referred to as "the Group") and its joint venture, which comprise the consolidated balance sheet as at 31 March 2019, and the consolidated statement of profit and loss (including other comprehensive income), consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated financial statements").

In our opinion and to the best of our information and according to the explanations given to us, and based on the consideration of reports of other auditors on separate financial statements of the subsidiaries which were audited by the other auditors and the unaudited financial statements/financial information of the joint venture furnished to us by the Management, the aforesaid consolidated financial statements give the information required by the Companies Act, 2013 ("Act") in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group and its joint venture as at 31 March 2019, of its consolidated profit and other comprehensive income, consolidated changes in equity and consolidated cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Act. Our responsibilities under those SAs 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 Code of Ethics issued by the Institute of Chartered Accountants of India, and we have fulfilled our other ethical responsibilities in accordance with the provisions of the Act. 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 judgment, 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. Revenue recognition - refer note 2.4(b)(ii)(a) to the consolidated financial statements

Key Audit Matter	How the matter was addressed in our audit
Measurement of revenue recorded from sale of residential units	Our audit procedures on revenue recognition included the following:
Revenues from sale of residential units represents the largest portion of the total revenues of the Group.	Evaluating that the Group's revenue recognition accounting policies are in line with the applicable accounting standards and their application to customer contracts including consistent application;

INDEPENDENT AUDITORS' REPORT (continued)**Key Audit Matters (continued)****A. Revenue recognition (continued) - refer note 2.4(b)(ii)(a) to the consolidated financial statements**

Key Audit Matter	How the matter was addressed in our audit
Revenue is recognised upon transfer of control of residential units to customers for an amount that reflects the consideration which the Group expects to receive in exchange for those units. The point of revenue recognition is normally on handover of the unit to the customer on completion of the project, post which the contract becomes non-cancellable by the parties. The Group records revenue at a point in time upon transfer of control of residential units to the customers.	- Identify and test operating effectiveness of key controls around approvals of contracts, milestone billing, intimation of possession letters and controls over collection from customers; - For samples selected, verifying the underlying documents – handover letter, sale agreement signed by the customer and the collections; - Revenue recognition cut-off procedures for determination of revenue in the appropriate reporting period;
Due to the large volume of the Group's projects, spread across different regions within the country and the competitive business environment, there is a risk that revenue could be overstated (for example, through premature revenue recognition i.e. recording revenue prior to handover of unit to the customers) or understated (for example, through improperly shifting revenues to a later period) in order to present consistent financial results. Since revenue recognition has direct impact on the Group's profitability, there is a possibility of management bias.	- Conducting site visits during the year for selected projects to understand the scope, nature and status of the projects and to assess the progress of the projects; and - Considered the adequacy of the disclosures in note 2.4(b)(ii)(a) to the consolidated financial statements in respect of the judgments taken in recognising revenue for residential units.
Measurement of revenue recorded over time which is dependent on the estimates of the costs to complete	Our audit procedures on revenue recognition included the following:
Revenue recognition from contractual projects represents a significant portion of the total revenues of the Group.	Evaluating that the Group's revenue recognition accounting policies are in line with the applicable accounting standards and their application to customer contracts including consistent application;
Revenue recognition from contractual projects involves significant estimates related to measurement of costs to complete the projects. Revenue from projects is recorded based on management's assessment of the work completed, costs incurred and accrued and the estimate of the balance costs to complete.	- For samples selected during the year, verifying the underlying documents – contracts entered into with customers, invoices raised and collections from the customers; - Review of the costs to complete workings, comparing the costs to complete with the budgeted costs and inquiring into reasons for variance;
Due to the inherent nature of the projects and significant judgment involved in the estimate of costs to complete, there is risk of overstatement or understatement of revenue.	- Sighting approvals for changes in budgeted costs with the rationale for the changes; and - Assessment of nature of costs taken to inventory.

INDEPENDENT AUDITORS' REPORT (continued)

Key Audit Matters (continued)

B. Inventories - refer note 3(b)(iii) to the consolidated financial statements

Key Audit Matter	How the matter was addressed in our audit
Assessment of net realisable value (NRV) of inventories	Our audit procedures to assess the net realisable value (NRV) of inventories included the following:
Inventories comprising raw materials and components, building materials, land stock, work-in-progress, stock in trade-flats and finished goods represents a significant portion of the Group's total assets.	Discussion with the management to understand the basis of calculation and justification for the estimated recoverable amounts of the unsold units ("the NRV assessment");
The Group recognises profit on each sale by reference to the overall project margin. A project comprises multiple units, the construction of which can last a number of years. The recognition of profit for sale of a unit, is therefore dependent on the estimate of future selling prices and construction costs. Further, estimation uncertainty and exposure to cyclicity exists within long- term projects.	Evaluating the management's valuation methodology and assessing the key estimates, data inputs and assumptions adopted in the valuations, which included comparing expected future average selling prices with available market data such as recently transacted prices for similar properties located in the nearby vicinity of each property development project and the sales budget plans maintained by the Group; and
Forecasts of future sales are dependent on market conditions, which can be difficult to predict and be influenced by political and economic factors.	Verifying the NRV assessment and comparing the estimated construction costs to complete each development with the Group's updated budgets.
Further due to their materiality in the context of total assets of the Group this is considered significant to our overall audit.	

C. Land advances - refer note 3(b)(iii) to the consolidated financial statements

Key Audit Matter	How the matter was addressed in our audit
Assessment of recoverability of land advances	Our audit procedures to assess the recoverability of land advances included the following:
Land advance represents a sizeable portion of the Group's total assets.	For our samples, verified the underlying agreements in possession of the Group, based on which land advances were given;
Land advance represents the amount paid towards procurement of land parcels to be used in the future, for construction of residential projects. These advances are carried at cost. These land advances will be converted into land parcels as per the terms of the underlying contracts under which these land advances have been given. To assess the carrying value of land advances, these advances are tested for recoverability by the Group by comparing the valuation of land parcels in the same area for which land advances have been given.	Discussion with the management to understand their plan for conversion of these land advances into land parcels; and
Further due to their materiality in the context of total assets of the Group this is considered significant to our overall audit strategy and planning.	For our samples, verified the valuation reports of land stock.

INDEPENDENT AUDITORS' REPORT (continued)**Information Other than the Consolidated Financial Statements and Auditors' Report Thereon**

The Holding Company's management and Board of Directors are responsible for the other information. The other information comprises the information included in the holding Company's annual report, but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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 financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

The Holding Company's management and Board of Directors are responsible for the preparation and presentation of these consolidated financial statements in term of the requirements of the Act that give a true and fair view of the consolidated state of affairs, consolidated profit/ loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flows of the Group and its joint venture in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified under section 133 of the Act. The respective Board of Directors of the companies included in the Group and of its joint venture are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of each company and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring accuracy and completeness of the accounting records, relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

In preparing the consolidated financial statements, the respective management and Board of Directors of the companies included in the Group and of its joint venture are responsible for assessing the ability of each company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The respective Board of Directors of the companies included in the Group and of its joint venture is responsible for overseeing the financial reporting process of each company.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs 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.

INDEPENDENT AUDITORS' REPORT (continued)**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)**

As part of an audit in accordance with SAs, we exercise professional judgment 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. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparation of consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the appropriateness of this assumption. 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 (company and subsidiaries) as well as its joint venture 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 such entities or business activities within the Group and its joint venture to express an opinion on the consolidated financial statements, of which we are the independent auditors. We are responsible for the direction, supervision and performance of the audit of financial information of such entities. For the other entities included in the consolidated financial statements, which have been audited by other auditors, such other auditors remain responsible for the direction, supervision and performance of the audits carried out by them. We remain solely responsible for our audit opinion. Our responsibilities in this regard are further described in para (a) of the section titled 'Other Matters' in this audit report.

We believe that the audit evidence obtained by us along with the consideration of audit reports of the other auditors referred to in sub-paragraph (a) of the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

We communicate with those charged with governance of the Holding Company and such other entities included in the consolidated financial statements of which we are the independent auditors 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 those charged with governance 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 those charged with governance, 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 auditors' report unless law or regulation precludes public

INDEPENDENT AUDITORS' REPORT (continued)**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)**

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.

Other Matters

- (a) We did not audit the financial statements of 13 subsidiaries (including step down subsidiaries), whose financial statements reflect total assets of Rs 4,194 million as at 31 March 2019, total revenues of Rs. 1,123 million and net cash flows amounting to Rs. 39.63 million for the year ended on that date, as considered in the consolidated financial statements. These financial statements have been audited by other auditors whose reports have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries and our report in terms of sub-section (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries is based solely on the audit reports of the other auditors.
- (b) The consolidated financial statements also include the Group's share of net profit/loss (and other comprehensive income) of Rs. Nil for the year ended 31 March 2019, as considered in the consolidated financial statements, in respect of a joint venture, whose financial statements have not been audited by us or by other auditors. These unaudited financial statements/financial information have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of this joint venture, and our report in terms of sub-section (3) of Section 143 of the Act in so far as it relates to the aforesaid joint venture, is based solely on such unaudited financial statements. In our opinion and according to the information and explanations given to us by the Management, the financial statements/financial information of the aforesaid joint venture is not material to the Group.

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements/financial information certified by the Management.

Report on Other Legal and Regulatory Requirements

- A. As required by Section 143(3) of the Act, based on our audit and on the consideration of reports of the other auditors on separate financial statements of the subsidiaries which were audited by other auditors and the unaudited financial statements/financial information of the joint venture furnished to us by the Management, as noted in the 'Other Matters' paragraph, we report, to the extent applicable, that:
 - a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated financial statements;
 - b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors;
 - c) The consolidated balance sheet, the consolidated statement of profit and loss (including other comprehensive income), the consolidated statement of changes in equity and the consolidated statement of cash flows dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements;
 - d) In our opinion, the aforesaid consolidated financial statements comply with the Ind AS specified under section 133 of the Act;

INDEPENDENT AUDITORS' REPORT (continued)**Report on Other Legal and Regulatory Requirements (continued)**

- e) On the basis of the written representations received from the directors of the Holding Company as on 31 March 2019 taken on record by the Board of Directors of the Holding Company and the reports of the statutory auditors of its subsidiary companies incorporated in India, none of the directors of the Group companies incorporated in India is disqualified as on 31 March 2019 from being appointed as a director in terms of Section 164(2) of the Act; and
 - f) With respect to the adequacy of the internal financial controls with reference to financial statements of the Holding Company and its subsidiary companies incorporated in India and the operating effectiveness of such controls, refer to our separate Report in "Annexure A".
- B. With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the reports of the other auditors on separate financial statements of the subsidiaries and the unaudited financial statements / financial information of the joint venture furnished to us by the Management, as noted in the 'Other Matters' paragraph:
- i. The consolidated financial statements disclose the impact of pending litigations as at 31 March 2019 on the consolidated financial position of the Group and its joint venture - Refer Note 39 to the consolidated financial statements.
 - ii. The Group and its joint venture did not have any material foreseeable losses on long-term contracts including derivative contracts during the year ended 31 March 2019.
 - iii. There has been no delay in transferring amounts to the Investor Education and Protection Fund by the Holding Company incorporated in India during the year ended 31 March 2019. There are no amounts which are required to be transferred to the Investor Education and Protection Fund by the subsidiary companies and the joint venture incorporated in India during the year ended 31 March 2019; and
 - iv. The disclosures in the consolidated financial statements regarding holdings as well as dealings in specified bank notes during the period from 8 November 2016 to 30 December 2016 have not been made in the financial statements since they do not pertain to the financial year ended 31 March 2019.
- C. With respect to the matter to be included in the Auditor's report under section 197(16):
- In our opinion and according to the information and explanations given to us and based on the reports of the statutory auditors of the subsidiary companies incorporated in India which were not audited by us, the remuneration paid during the current year by the Holding Company to its directors is in accordance with the provisions of Section 197 of the Act. The remuneration paid to any director by the Holding Company is not in excess of the limit laid down under Section 197 of the Act. The Ministry of Corporate Affairs has not prescribed other details under Section 197(16) which are required to be commented upon by us. Further, the provision of section 197(16) is not applicable to the subsidiary companies and the joint venture incorporated in India.

for **B S R & Co. LLP**

Chartered Accountants

ICAI Firm registration number: 101248W/W-100022

Supreet Sachdev

Partner

Membership number: 205385

Bangalore

17 May 2019

Annexure A to the Independent Auditors' report on the consolidated financial statements of Sobha Limited for the year ended 31 March 2019

Report on the internal financial controls with reference to the aforesaid consolidated financial statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013

(Referred to in paragraph (f) under 'Report on Other Legal and Regulatory Requirements' section of our report of even date)

Opinion

In conjunction with our audit of the consolidated financial statements of the Company as of and for the year ended 31 March 2019, we have audited the internal financial controls with reference to consolidated financial statements of Sobha Limited (hereinafter referred to as "the Holding Company") and such companies incorporated in India under the Companies Act, 2013 which are its subsidiary companies as of that date.

In our opinion, the Holding Company and such companies incorporated in India which are its subsidiary companies, have, in all material respects, adequate internal financial controls with reference to consolidated financial statements and such internal financial controls were operating effectively as at 31 March 2019, based on the internal financial controls with reference to consolidated financial statements criteria established by such companies considering the essential components of such internal controls stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (the "Guidance Note").

Management's Responsibility for Internal Financial Controls

The respective Company's management and the Board of Directors are responsible for establishing and maintaining internal financial controls with reference to consolidated financial statements based on the criteria established by the respective Company considering the essential components of internal control stated in the Guidance Note. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to the respective company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 (hereinafter referred to as "the Act").

Auditors' Responsibility

Our responsibility is to express an opinion on the internal financial controls with reference to consolidated financial statements based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing, prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls with reference to consolidated financial statements. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls with reference to consolidated financial statements were established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls with reference to consolidated financial statements and their operating effectiveness. Our audit of internal financial controls with reference to consolidated financial statements included obtaining an understanding of internal financial controls with reference to consolidated financial statements, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of the internal controls based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

Annexure A to the Independent Auditors' report on the consolidated financial statements (continued)

Auditors' Responsibility (continued)

We believe that the audit evidence we have obtained and the audit evidence obtained by the other auditors of the relevant subsidiary companies in terms of their reports referred to in the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the internal financial controls with reference to consolidated financial statements.

Meaning of Internal Financial controls with Reference to Consolidated Financial Statements

A company's internal financial controls with reference to consolidated financial statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial controls with reference to consolidated financial statements includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial controls with Reference to consolidated Financial Statements

Because of the inherent limitations of internal financial controls with reference to consolidated financial statements, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls with reference to consolidated financial statements to future periods are subject to the risk that the internal financial controls with reference to consolidated financial statements may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Other Matters

Our aforesaid reports under Section 143(3)(i) of the Act on the adequacy and operating effectiveness of the internal financial controls with reference to consolidated financial statements insofar as it relates to 13 subsidiary companies, which are companies incorporated in India, is based on the corresponding reports of the auditors of such companies incorporated in India.

for **B S R & Co. LLP**

Chartered Accountants

ICAI Firm registration number: 101248W/W-100022

Supreet Sachdev

Partner

Membership number: 205385

Bangalore

17 May 2019